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CONTENTS

Ranch Appraising

Appraisal Standards

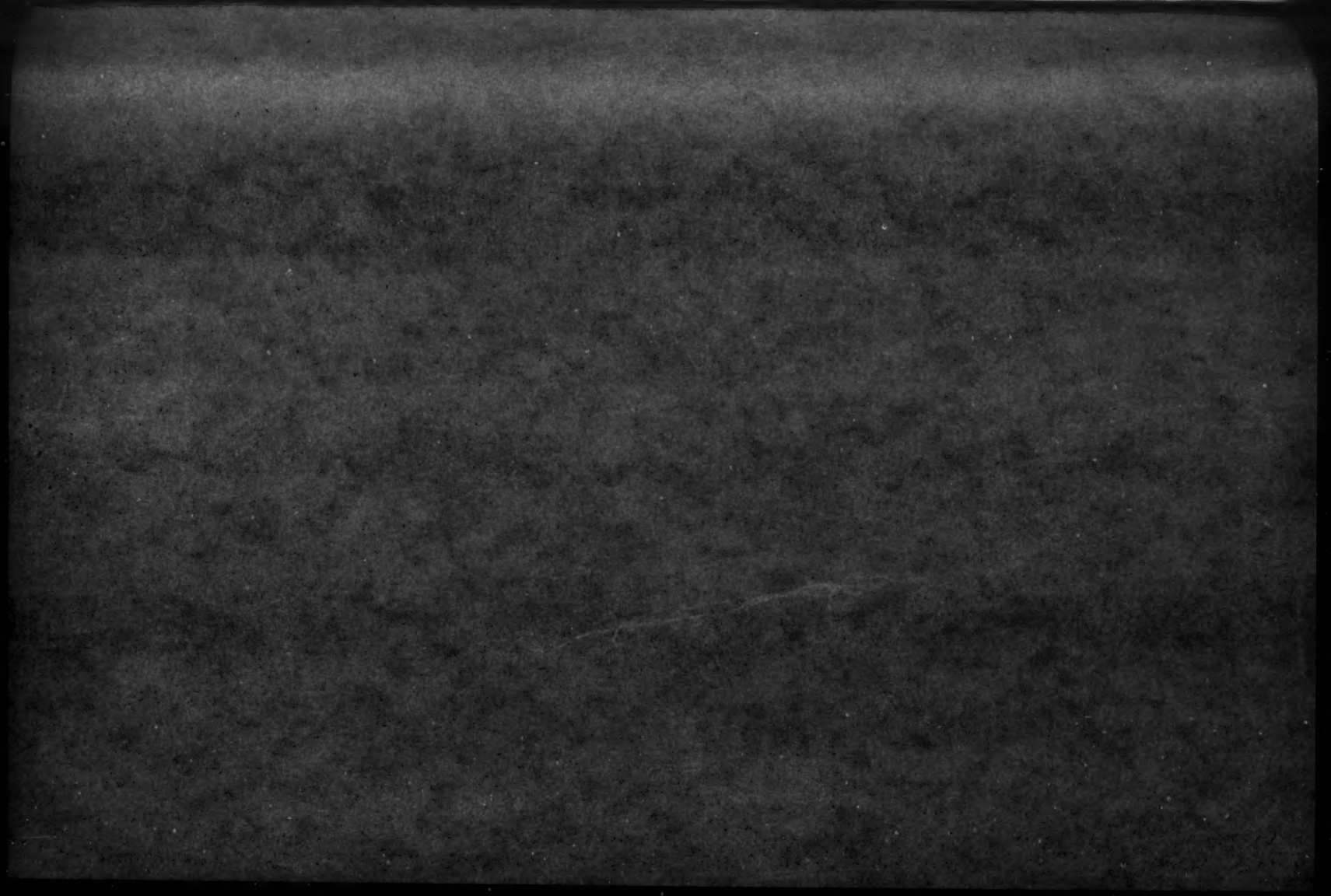
Our Real Estate Tax Problem

Valuation of the Fee under a Reappraisal Lease

Economic Background of the Capitalization Process

The Expert Witness from the Lawyer's Point of View

VOL. V, No. 4 OCTOBER, 1937



The President's Message

ONE of the most significant current trends in real estate appraising is the increasing emphasis that is being placed on the analysis and interpretation of data. We have learned that dependable opinions of real estate value do not come as heaven-sent inspirations but as the result of careful and thorough consideration of all the pertinent facts about the property and its surroundings. This is the reason why the "data program" constitutes such an important and indispensable part of the appraisal process.

Data programs are not peculiar to real estate appraising. They are used by solvers of problems in many other fields. The physician, for example, gathers facts and interprets them before he makes a diagnosis or prescribes for his patient. He knows how necessary it is to give close and thorough attention to all phases of the problem. Often it is necessary to make numerous laboratory tests and to explore with the X-ray before the patient's condition can be properly appraised. Failure to check the condition of a dead tooth may prove to be a fatal oversight.

The conscientious appraiser makes his "data program" comprehensive enough to include all pertinent information that might influence his opinion of value. It will cover not only a thorough survey of the physical condition of the property but also the analysis and interpretation of numerous economic, social, and civic influences.

The "data program" is important—but it is only one phase of the appraisal process. A mere compilation of facts does not constitute an appraisal. The facts must be interpreted before they have any meaning. Each datum must be analyzed and related to the final value estimate. The good appraiser, like the good scientist, takes nothing for granted. He makes no snap judgments. He searches diligently for the truth and withholds final judgment until he knows that he can support his conclusion with convincing proof.

This is why members of the American Institute of Real Estate Appraisers must place so much emphasis upon the careful development of "data programs" and upon thorough and impartial analysis of factual data. They are professional men and are pledged to the ideals of honest and competent service.

Authors in This Issue

BOYD T. BARNARD, M.A.I., a member of the firm Jackson-Cross Company, of Philadelphia, Pennsylvania, was the official delegate of the American Institute of Real Estate Appraisers to the Annual Meeting of the Permanent Committee of The International Federation of Surveyors, held in July at Paris, France.

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CORRECTION: In the July issue of the Journal, on the page "Contributors to this Issue," Mr. Mark Cheesman, of Sacramento, California, was identified as the Assistant Sales Manager and Appraiser of the Robertson Govan Company. This was in error. Mr. Cheesman, formerly District Appraiser for the Home Owners' Loan Corporation and Chief Appraiser for the Veterans' Welfare Board of the State of California, is now associated with the McClatchy Realty Company.

The JOURNAL *of the*

AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS

of the National Association of Real Estate Boards

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Volume V | OCTOBER, 1937 | Number 4

CONTENTS

With the Editors		308
Valuation of the Fee under a Reappraisal Lease	JOSEPH LARONGE, M.A.I.	311
Appraisal Standards	E. L. OSTENDORF, M.A.I.	325
Economic Background of the Capitalization Process	R. M. FISCHER	329
The Expert Witness from the Lawyer's Point of View	ROBERT F. BINGHAM	343
Ranch Appraising	TRUE D. MORSE, A.F.M., A.R.A.	348
Our Real Estate Tax Problem	IVAN A. THORSON, M.A.I.	357
Report of the Annual Meeting of the Permanent Committee of The International Federation of Surveyors	BOYD T. BARNARD, M.A.I.	365
Comment and Discussion.		
Smith—On Value		369
Tredwell—On Depreciation and the "Forgotten Man"		371
Stolp—On Cemetery Valuation		373
Mack—On Land Depreciation		377
Simpson—On the Columbia Appraisal Courses		379
The Appraisal Docket	WILLIAM WILSON	382
What to Read.		
Review of "The Science of Valuation and Depreciation"	MORRIS B. ASHTON	385
New Articles		386
Officers		387
Committees		388
Roster of Members		390
Index to Volume V		395

This publication is provided as a medium for the expression of individual opinion concerning appraisal practice and procedure and topics allied thereto. The articles printed herein do not necessarily represent the endorsement of the Institute nor of the majority of the members excepting as such statements may be designated as approved by the Governing Council. The Editors exercise only a general supervision of the material and assume no responsibility for the opinions expressed by the contributors.

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Entered as second class matter January 17, 1933, at the post office at Chicago, Illinois, under the act of March 3, 1879. Subscription rates: $5.00 a year; $1.25 a copy. Remittances may be made by personal checks, drafts, or post office or express money orders, payable to the American Institute of Real Estate Appraisers, Chicago, Illinois. Printed in the United States of America.

• With The Editors •

THE RACKETEER IN APPRAISING

EVERY profession must contend with the "shyster" who obtains sustenance as a parasite and contributes nothing but grief to the cause. Ordinarily, he is incompetent—always unscrupulous. His activity is usually short-lived, as he must ever be on the lookout for new clients. Now and then, however, he gets an "idea" that may be capitalized on a large scale, and he then assumes a status that in modern parlance we term the "racketeer." In this widened capacity he becomes not only a menace to the profession but also to the business and society he is supposed to serve.

The appraisal profession has its problems with the "shyster," plenty of them, but it is seldom he can survive long enough to build his nefarious operations into anything resembling a "racket." The nearest approach to this springs up from time to time where a well-established enterprise in another field decides that appraising might be a good *business* and promptly launches a "side line" for such purposes. We find that such endeavors usually propagate from accounting organizations, construction concerns, and, particularly, legal firms specializing in taxation, reorganization, and other matters involving real property and its operation.

Inevitably and fortunately, even in these well-organized forays into another professional field, the going is hard. Recently a large and well-known hotel accounting firm announced that it was "definitely through" with hotel appraising—as one of the partners stated with considerable emphasis, "Never again!" There is little question that such activities had injured the firm's accounting reputation. Certainly as appraisers it had made no headway.

However, there are always others waiting "around the corner" for the chance to break in. The other day we had referred to us an "appraisal" of a toll bridge prepared by a nationally famous statistical organization which apparently subscribed to the belief that property as well as all human activities could be controlled and evaluated by charts and curves. The appraisal was really a "classic"—a most imposing document that must have delighted the heart of a statistician. Population trends, automobile registrations, gasoline consumption, highway mileage, bank clearings, telephone subscribers, industrial production, and yields on all classes of listed securities from United States Treasury bonds to industrial common stocks were presented through page after page of graphs emblazoned in all the colors of the rainbow. As a "data assembly," it was a unique document; as an appraisal, it did no more than lay a part of the background upon which a trained and experienced appraiser might begin his study.

The valuation finally subscribed to was an arbitrary figure lying about halfway between two others obtained by the straight-line capitalization at different rates of probable dividends to be paid from expected net income. This "net income" was developed from past accounting statements with presumably some support if not actual adjustment reflected from the charted statistics. Assumed dividend payments used for capitalization purposes were predicated upon a program of maximum income tax avoidance. The vast assembly of security yields was finally narrowed for comparison to those of non-callable preferred stocks for the lower limit of return, approximating 4.7 per cent, and those of utilities common stocks for the upper limit of about 6.8 per cent. The "bracket" thus adopted resulted in a possible variation in the capital "value" of around 50 per cent. The valuation formula was evidently quite simple—"Just split the difference."

While the computations were meaningless in themselves, the omissions from the "appraisal" were the most significant. In presenting this valuation in an expropriation proceeding before a Board of Viewers, the witness for the statistical organization admitted among other things that he was not a trained engineer, accountant, nor appraiser; that he had no knowledge of the actual or reproduction cost of the bridge nor of its condition; that he had formed no idea of the remaining life expectancy; that he had

neither investigated the depreciation provision made by the bridge company and set up in its accounts nor made an estimate of his own; that he had not investigated the selling prices or the recent financing of other toll bridges; and finally that he had given no consideration to the fact that the bridge was a public utility with toll rates and charges and hence net income potentialities controlled under State Commission regulations.

The same concern is now reported to be making extensive "appraisals" by similar methods on substantial income properties in one of our large eastern cities. Such abortions tend to bring the appraisal profession into ill repute. The courts and other authorities, while giving little weight to such crude valuations, nevertheless, realizing the prior good name of such a large and well-established firm, lose confidence in appraising in general and look thereafter with increasing suspicion on the "expert" appraiser, no matter how well qualified he may be.

The American Institute of Real Estate Appraisers has no direct means to combat these "racketeering appraisers." It can, however, continue to develop and expound the highest standards of practice and ethics and to insist that all of its members conform therewith. In the meantime it will be largely a question of educating the courts and the public. The appraiser, no matter how competent as such, would most certainly not be permitted to engage in the practice of law or medicine unless he had independently attained the prerequisites laid down for the practice of those professions. By the same token, neither the lawyer, the accountant, nor the statistician should be permitted to practice appraising any more than the barber, the butcher, or the clerk unless and until he has attained the necessary qualifications—and we as appraisers know it is a lifetime job in itself—not a "side line."

* * *

THE TWO "T'S"

THE two greatest assets of any appraiser are those personal characteristics that we have termed *tact* and *tolerance*. No matter how great his inherent ability and subsequent training, he cannot go far without these attributes, whereas the man with but a modicum of knowledge may still attain a real measure of success by the possession and exercise of these God-given qualities.

Probably every M.A.I. is called upon from time to time to serve a client who has predetermined ideas of value—the man who says: "I know what it is worth—such and such an amount—but I want an outsider's report to give to the bank." *Tact* will direct the appraiser around the shoals of argument and thus permit him to report a valuation that may be a far cry from the demanded figure but which, in the end, will satisfy and, better still, "keep" the client. *Tolerance*, on the other hand, will cause the appraiser to consider the client's ideas and to study the reasoning and logic conscientiously, perhaps obtaining thereby something of material assistance to his final judgment if not in fact a real addition to his general fund of knowledge.

If a profession is to advance, it must do so largely through the exchange of ideas among its members. There inevitably develop wide differences of individual opinion. Two men with diametrically opposite viewpoints on a certain principle cannot both be correct, but usually there is something of merit in each opinion. *Tact* upon the part of their associates may hold these antagonists in line for the good of all. The finer and greater thing under such circumstances is the exercise of *tolerance* by the men themselves, which permits calm discussion of the case in point with the great probability of finding some common ground for greater accomplishments.

It is difficult to say which of these qualities is the greater, but if one cannot have both, we nominate *tolerance* as the finest single characteristic for a human being, whether he be an appraiser or engaged in any other walk of life. However, the exercise of the one leads quite naturally to the strengthening of the other.

May we *tactfully* suggest that the Institute has reached that stage in its development where *tolerance* on the part of its members is of the utmost significance. Listen to the "other fellow," whether you agree with him or not, and, as you listen, think. You may be surprised, and, incidentally, you will have a lot more fun.

* * *

BLACK SHEEP

THERE is supposed to be one in every family. But remember, as in the good old mid-Victorian romances, and not infrequently in real life, the "boy who was no good"

and who was pushed out in the cold world on his own sooner or later came back as a "prodigal son."

In the family of investment securities, the *real estate bond* was turned out bodily back in 1929 or thereabouts. For many years he had been set up as a "model" for the whole household, which made his derelictions as finally exposed more than ordinarily heart-rending. He has been on the black list for a long time, and his name is still mentioned only in whispers in the best church circles of the neighborhood. But it is reported on good authority that he is writing to the old folks once more and shows such evidence of reformation that they are getting his old room all ready to receive him.

All signs point to a gradual but really encouraging recovery of confidence in real estate and real estate securities. The realty bond statistics have shown in general a steady upward trend since the lows of 1932. The Index of Amott, Baker & Co., compiled on 200 Eastern issues on a base or face value of $1000, stood at $187 in 1932, about $220 in 1933, $294 in 1934, and by November of 1935 had reached $386. By the end of 1936 the Index was at $437 and continued upward to approximately $450 during the spring months of 1937. As of September 1, 1937, the Index as reported had slipped back to $391, which, of course, may be attributed to the general slump in the market during the late summer.

While the recovery is still far short of the levels of the late twenties, comparisons with steels, rails, motors, utilities, and virtually the entire list other than realty issues demonstrate conclusively the inherent stability of real estate.

Is the "black sheep" getting ready to come home? It begins to look like it. At any rate, it may not be premature to appoint a welcoming committee and to get ready for a rousing reception. Moreover, from the looks of the "old home place" at the moment, there is plenty to be done that will need an experienced hand—and a strong back.

ORDER IN THE COURT

IT did not take long for the National Labor Relations Board to get under way. "A new broom sweeps clean." The very nature of its work is making good front page copy for our newspapers, and, as "appraisal data" on human nature and relations, some of the proceedings are of more than local significance.

The other day in a hearing before an examiner of the National Labor Relations Board, the rights and representations of a certain union with the employed personnel and management of a large manufacturing corporation were involved. The attorney for the corporation in cross-examining a high official of the union asked him to explain how the affairs of the organization were regulated and conducted. The questions and answers were substantially as follows: "You have a written Constitution and By-Laws, do you not?" The union official replied, "No, we don't need them." "Well," said the surprised attorney, "How then can you say that you are prepared to accept and act with responsibility on these matters? How *do* you govern yourselves?" "Oh," was the reply, "We do that all right; we are governed by Robert's Rules of Order."

At least we may be thankful that some rules of "order" are governing the deliberations of our newer labor groups. Of course, "rules" are of little good unless we abide by them. Perhaps other organizations might take cognizance of this idea and scrap regulations that tend to restrict their scope of activity—or perhaps check up to see if they are abiding by those they have.

The strength and degree of public recognition accorded to any society of individuals banded together for a common cause is gauged very largely by the standards of qualifications and conduct set up and subscribed to by its members. If properly formulated and publicized, adherence thereto brings greater power to the individual than he could possibly attain alone, which, after all, is the underlying purpose of cooperative effort.

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Volume V OCTOBER, 1937 Number 4

Valuation of the Fee under a Reappraisal Lease

By JOSEPH LARONGE, M. A. I.

MODERN appraisal technique is becoming progressively more a matter of scientific study and less a matter of haphazard guesswork, although at all times a sharp distinction should be made between "guesswork" and deliberate judgment. The latter, resulting from and inextricably bound up with active experience, is an important factor at many junctures of an appraisal. One of the most interesting fields of valuation work, and one in which science and judgment combine as in almost no other, is that which deals with the periodic appraisal of a fee for the purpose of determining the rent to be paid by a lessee under a long term lease. A recent experience of the author in this field is outlined herein.

THE PROBLEM

The land in question consists of two adjacent parcels, for convenience called "the large parcel" and "the small parcel," fronting on the north side of downtown Euclid Avenue in Cleveland, Ohio.

The two parcels together have a frontage of 132.63 feet, of which 92.63 feet represent the width of the large parcel and 40 feet the width of the small parcel. For a depth of 100 feet the side boundaries of the parcels are at right angles to the line of Euclid Avenue. They then turn at an angle to the west, with additional depths as indicated on the plat (page 323).

Each parcel is held by The Cleveland Arcade Company under a separate 99-year lease, effective April 1, 1887, and providing for decennial reappraisals, the rent for the large parcel to be 4 per cent of the appraised value, with an all-time minimum of $5,000 per year. The value of this large parcel was fixed at $125,000 as of April 1, 1887, and the rent for the first ten-year period at $5,000 per annum. Arbitration was provided for, should the parties fail to agree upon new rentals for the succeeding ten-year periods.

The terms of the lease covering the small parcel were substantially the same as those set for the large parcel except that the annual rent was fixed upon a basis of 5 per cent of the appraised value; no minimum rent was specified; a value of $40,000 was agreed upon as of April 1, 1887; and the rent for the first ten-year period thereafter was fixed at $2,000 per year. The usual provisions requiring the lessee to pay taxes and assessments were included in each lease, and the lessors were required to purchase the buildings and improvements remaining on the premises at the expiration of the term of the leases at a value to be determined by an appraisal. Neither lease contained a purchase option.

While there is other land in Cleveland's business district having a greater value, these parcels are nevertheless located on the city's principal shopping thoroughfare and close to the centers of greatest pedestrian concentration. Within a radius of two short blocks, for example, are found most of the department stores, small shops, and office buildings in the downtown area; and the Public Square, at which most of Cleveland's street car lines converge, is but a short distance away.

The lessee, contemporaneously with the acquisition of the two parcels in question, purchased in fee a somewhat larger property contiguous to and directly in the rear of the leased premises, extending to and fronting on Superior Avenue, which latter thoroughfare runs in an easterly and westerly direction. A building was then constructed (1887) covering the fee and leasehold parcels, such building having nine stories on the Euclid Avenue front as well as nine stories on the Superior Avenue side with a five-story, two-level arcade extending from street to street. This (arcade) situation was made possible through a difference in the elevation of the two main thoroughfares.

For the ten-year period ending April 1, 1937, the lessee, by agreement of the parties made ten years previously, had been paying $52,000 per year for the large parcel and $26,000 per year for the small parcel, these rents having been determined during the period of highest land values known to Cleveland. The parties, being unable to agree upon a rental for the ten-year period following that date, submitted the determination of the land value in each case to three arbiters. Each party selected one arbiter, and the two, so selected, agreed upon a third. Each party further employed appraisers to make an exhaustive study of the situation and to testify before the arbiters under the questioning of attorneys representing the parties. Under the specific provisions of the leases, the value of the land only was in question. The method used by the writer as one of the appraisers employed by the lessee is discussed herein.

THE APPROACH—DETERMINING HIGHEST AND BEST USE

Inasmuch as the land only was to be appraised, the present improvement above referred to, while considered, was not a factor in the final conclusion—for several reasons: first, the leases themselves provided for independent appraisals, and to accomplish this it was necessary to project individual buildings on each; second, the computations and occupancy ratio of the present and near-by buildings indicated that floor space above the second story would not produce sufficient income to yield a reasonable return on the investment required for the additional upper floor space; third, the leased parcels, which do not extend to another street without being joined with the fee land fronting on Superior Avenue, would not permit of the construction of an arcade building and thus obtain the benefit of the great flow of pedestrian traffic now resulting from the street-to-street connection.

Hence, a study was made to select the improvement which represented the highest and best use of the leasehold parcels, exclusive of the Superior Avenue fee. This was done by projecting buildings of various types and sizes, allocating rental incomes, deducting anticipated expenses including amortization of the building costs, and capitalizing the net difference. Ten different types of buildings were considered, of which three related to the large parcel, two related to the small parcel, and five related to the two combined. In one case a theatre was assumed for the rear portion of the land, with stores in the front and a lobby entrance to the theatre through one of the stores. In several cases there was superimposed upon the rear portion of the land a structure to be used in connection with one of the stores for restaurant, display, or other purposes. The computations in these instances indicated that the rear space did not warrant development because, like the space above the second floor, the income yield was too low in comparison with the investment required. Hence,

the balance of the analysis was confined to buildings having a depth of 100 feet only and a height above the street level of one or two stories. In every case plans were prepared by a registered architect working in conjunction with the author's technical staff; these plans indicated the sizes, design, cost of construction, type of construction, contents, etc., and the cost figures were checked by contractors specializing in the type of construction in question.

Notwithstanding that separate appraisals were required under each lease, and individual buildings thereby became necessary, for comparison and preparedness purposes, studies were made of developments covering the combined leasehold parcels. From these it was determined that the highest and best use of the two parcels together was represented by a two-story building with basement covering the entire frontage of 132.63 feet and a depth of 100 feet, with the rear portion of the land vacant. This building was designed to contain eight stores on the ground floor, and it was assumed, in order to avoid the use of valuable ground floor space for a second floor entrance and janitor and other services, that the entire second floor area might be leased to one or more of the store occupants for use in conjunction with such store or stores.

Each of the two parcels was then considered *independently* of the other, inasmuch as the work actually represented appraisals of two separate and distinct parcels under two separate and distinct leases. Here it was also discovered that the highest and best use which could be made of each of said parcels independently was that of a two-story and basement building covering the entire width of the parcels in question with a depth of 100 feet, the large parcel containing five stores and the small parcel two stores, with the second floor areas being used in conjunction with one or more of the said stores. It will be observed that the buildings proposed for the individual units have a total of seven stores, as compared with eight stores (each of an approximate width of 16 feet) for the building covering both parcels—this for the reason that the small or 40-foot parcel, used independently, would not lend itself to three stores of advantageous size.

It was interesting to note, however, that the front foot value of each of the two parcels appraised independently was somewhat less than the front foot value of the two parcels appraised together, which result denoted that "plottage" was a factor in rendering the land more valuable when the two parcels were used together. However, because of the nature of the case—each parcel being held under a separate lease from a different fee owner—this factor was eliminated from consideration, and the highest and best use for the purpose of the appraisal was determined to be a building such as the one described and erected upon each parcel independently, said building being allocated a fifty-year life.

ESTIMATED INCOME UNDER HIGHEST AND BEST USE

The starting point in the computations themselves was the determination of the rentals to be expected. In the solution of this task a chart was prepared, covering both sides of Euclid Avenue for a considerable distance, on which the following information was indicated:

Name of the occupant.
Street number of the store.
Type of business operated by the tenant.
Size of the store.
Size of the basement space, if any.
Area of the floor space included.
Typical traffic counts recently made, giving the percentage of men and women included in the count.
Term of the lease.
Rent specified.
Average rent per year where it was not uniform.
Percentage provisions, if any.
Rent per front foot for the full depth of the store.
Rent per front foot reduced to a unit depth.
Rent per square foot.
Etc.

Additional helpful data were gathered and tabulated, running back in point of time to the year 1917. These included sales and leases of near-by properties with comparisons drawn between the properties sold or leased and the Arcade property, due allowance being made for changes in conditions during the time which elapsed since such sales and leases were made and for distressed circumstances obtaining in some cases; recent forfeitures of leases covering comparable land; rent readjustments both downward and upward; listings giving levels at which downtown store units were available at different times, including the present; and Euclid Avenue store vacancies. A few instances were found of rents which varied considerably from the unit foot average which seemed to obtain for the locations in question. Where the variance was much below the average, it was generally found to be a vestige of the depression paid under a lease made a few years ago with very little upward scaling of the rent. In one or two cases where the variance was above the average, it was found that a responsible tenant was being held to the terms of a lease made before the depression and which had not yet expired. In another such case, it was discovered that while the minimum guaranteed rent under the lease was not above the average, the actual rent paid under a percentage clause was unusually high by reason of the exceptional merchandising ability of the tenant. In this instance, a comparison was made with the rent paid by a near-by tenant in the same line of business, whose merchandising ability was apparently not up to the standard of the former and whose rent was found to be in line with the average.

Occasionally a tenant will pay a premium for a particularly coveted location, especially where it is adjacent to space occupied by a large advertiser whose expenditures in this direction bring many persons to the locality. One such case was encountered in this work. It was discovered, however, that the lease ran for a term of five years only and that it might very well involve a reduction in rent rather than an increase at its expiration. Such instances were given their proper places in the scheme of data considered. Cognizance was taken of them, and proper weight attributed, with the thought always in mind, however, that they represented guide posts only when considered along with all the other information which might reasonably be obtained.

In addition, an elaborate diagrammatic comparison was made of the two sides of Euclid Avenue for a considerable distance in both directions from the Arcade. This comparison indicated that on the south side of the street, opposite that upon which the appraised parcels are located, there were more pedestrians, more shoppers, a larger percentage of women, more women's shops, and more department stores than on the north side. These results compared favorably with the ratio between existing rentals and recent unit foot sales prices on the two sides of the street.

ESTIMATED EXPENSES UNDER HIGHEST AND BEST USE

From all the foregoing, an increasing scale of store rentals was projected for a ten-year period and this schedule used as an average in determining the annual gross income. In a similar manner, the income to be expected from the second floor space was determined upon a square foot basis and added to the store rentals to establish the total income per year. From the total income per year, deductions were made for the following items:

Taxes: For this purpose the most recent assessment of the land and the most recent tax rate were used and a figure determined for the building by assuming a valuation of 75 per cent of its construction cost.

Repairs: Consideration was given here to plumbing repairs, roof work, concrete work, painting and decorating, repairs to heating system and to electric wiring, and unforeseen accidents and contingencies not covered by insurance. From the estimate of both the cost and the frequency

of the repair item, a total figure was arrived at and then reduced to an annual basis.

Replacements: These included store fronts, roofs, cement drives, piping, floors, etc., the estimated cost being allocated upon an annual basis. Only one store front replacement was considered in the fifty-year period, as experience has demonstrated that tenants frequently absorb such expense.

Heat and light: It was assumed that all heat and light consumed would be paid for by the tenants.

Insurance: Adequate fire insurance, tornado insurance, and public liability insurance were included as expenses upon the basis of actual premiums.

Management: The annual expense for the services of a property manager, whose duties would include the collection of rents, supervision of repairs, etc., was taken at a percentage of the annual rent figures, in keeping with prevailing rates.

Vacancies: While it was thought that vacancies in the immediate future might be slight, if any, because of expected improvement in conditions and because the premises in question are located in one of the better downtown business sections of the city, it was felt, nevertheless, that over a period of fifty years, the assumed life of the building, an allowance should be made for vacancies due to the experience of most property owners in this regard during the last and previous depressions.

Loss of rents and adjustments with tenants: The experience of property owners and managers has indicated in many cases during the lean years that even where an actual vacancy does not occur rental income is nevertheless reduced by adjustments which must be made with tenants in order to retain them as such under the stress of economic conditions beyond the control of either party.

Real estate commissions for rerenting space: This item represents an expense which is particularly applicable to downtown store rentals, and it is one which is often not considered by real estate appraisers. No individual exists who is so omniscient as to be able to predict for a fifty-year period the exact amount which it may be necessary to pay in real estate commissions to provide a continuity of tenants. Such a prediction, like many others in appraisal work, must be based, of course, upon the best judgment of the appraiser as the result of his years of experience. In the case under consideration, it was felt that an average store lease would be made for a period of ten years and that three times during the fifty-year period it would be necessary to pay a brokerage commission for rerenting the entire space, with the thought in mind that on the other occasions, when leases might expire, either the occupying lessee would renew or the owner would rerent the space without the use of a real estate broker. Hence, the rent for three ten-year periods covering the entire space was computed and multiplied by the prevailing rate for real estate commissions. The result was then divided by fifty, which represented the anticipated life of the building in years, and the quotient was used as the annual charge for real estate commissions.

Miscellaneous: A small item for miscellaneous expenses, not otherwise provided for, was then included.

The result obtained by deducting the total of such expenses from the total of the anticipated income represented the net income imputable to both land and building. In order to separate from this figure the income attributable to the land, an annual charge was deducted which represented the annuity necessary to amortize the cost of the building in fifty years upon the basis of interest at the rate of 6 per cent per annum, compounded annually. The result represented the net annual income imputable solely to the land, and this figure was capitalized in perpetuity at a rate of 5 per cent to arrive at the value of the land on April 1, 1937. This value, for the purpose of comparison, was reduced to a front foot basis for the full depth of the land, a unit foot basis, and a square foot basis.

The final computations adopted by the author for the development representing the highest and best use in each case, as well as the charts and diagrams are as follows (pages 316-323, inclusive).

COMPUTATIONS FOR LARGE PARCEL

Land—$92.63 \times \frac{223.8}{196.87}$

Building—Two stories and basement 92.63x100
Five stores and upper space

No. I

BASIS OF DETERMINING STORE RENTAL

Store #1—18x100 @ $575 per front ft.=	$10,350—called	$10,500 × 2 years	$21,000
625 per front ft.=	11,250—	× 3 years	33,750
675 per front ft.=	12,150—	× 3 years	36,450
725 per front ft.=	13,050— "	13,000 × 2 years	26,000
Total for the term of 10 years			$117,200

Yearly rental, $11,720—called for purpose of computation—$11,750

No. II

REPLACEMENTS

Two-story commercial building
Life—50 years

Roofing—(2 changes)—2 (92 squares @ $20.00)	$3,680.00
Plumbing:	
(a) Fixtures (1 change) 20 @ $60.00	1,200.00
(b) Piping (1 change)	900.00
Heating:	
Radiators (1 change) 30 @ $50.00	1,500.00
Piping (1 change)	1,500.00
Concrete (1 change)—(includes basement and rear area)	5,000.00
Sheet Metal (2 changes)—(includes flashing, gutters, etc.)	900.00
Carpentry:	
Floors (1 change) 18,400 sq. ft. @ 30c	5,520.00
Trim (1 change)—(includes doors, frames, etc.)	1,400.00
Store Fronts (1 change per unit in 50 yrs.)—5 @ $3,000.00	15,000.00
Total for 50 years	$36,600.00

or $732.00 per year—called $700.00

No. III

REAL ESTATE COMMISSIONS FOR RERENTING

Rerenting the entire space three times during the 50-year period:

$67,750 per year × 10=$677,500.00

4% on the first $20,000.00	$ 800.00
2½% on $657,500.00	16,437.50
	$17,237.50
	3
Total for 50 years	$51,712.50

This total divided by 50 equals $1,034.25—called for this purpose—$1,000.00

PROSPECTIVE ANNUAL INCOME AND EXPENSE STATEMENT

INCOME:

5 stores—18x100 @ $11,750.00 (see computation No. I)			$58,750.00
Second Floor—9,000 sq. ft. @ $1.00			9,000.00
Total			$67,750.00

EXPENSES:

Taxes—land, 1936 basis		$15,295.28	
building—75% of $138,468=$103,851—called $103,000 @ 3%		3,090.00	
Repairs—plumbing, roofing, painting, etc., including unforeseen contingencies, accidents, etc. not covered by insurance		450.00	
Replacements—including store fronts (see computation No. II)—$732—called		700.00	
Heat and light (furnished by tenants)			
Insurance—$92,000 fire (80% Coinsurance)	$115.00		
92,000 supplemental	24.53		
20/40 liability	52.14		
		191.67	
Management @ 2½%—$1,693.75—called		1,650.00	
Vacancies—5% of income—$3,387.50—called		3,300.00	
Loss of rents and adjustments with tenants—2½%—$1,693.75—called		1,650.00	
Real estate commissions for rerenting space (see computation No. III)—$1,034.25—called		1,000.00	
Miscellaneous		200.00	
Total			27,526.95
Income imputable to land and buildings			$40,223.05
Less annual sum to amortize cost of building in 50 years—interest @ 6% $138,468 x .06344 $8,784.40)—called			8,750.00
Income imputable to land			$31,473.05

VALUE ESTIMATE FOR LARGE PARCEL

Income imputable to land ($31,473.05) capitalized in perpetuity @ 5%	$629,461.00
Front foot value for full depth equals $629,461.00÷92.63	6,795.00
Per unit foot (factor 1.2371)	5,493.00
Square foot value (18,600 sq. ft.)	33.84
Appraised at $7,000 per foot for full depth equals $648,410—called	650,000.00
Front foot value for full depth equals ($650,000÷92.63)	7,017.16
Per unit foot	5,672.26
Per square foot	34.95

COMPUTATIONS FOR SMALL PARCEL

Land—40x$\frac{240.9}{223.8}$
Building—Two stories and basement 40x100
Two stores and upper space

No. I
BASIS OF DETERMINING STORE RENTAL

Store #1—19x100 @ $575 per front ft.=	$10,925—	called	$11,000×2 years	$22,000
625 per front ft.=	11,875—	"	12,000×3 years	36,000
675 per front ft.=	12,825—	"	13,000×3 years	39,000
725 per front ft.=	13,775—	"	14,000×2 years	28,000
Total for the term of 10 years				$125,000

Yearly rental, $12,500

No. II
REPLACEMENTS

Two-story commercial building
Life—50 years

Roofing—(2 changes)—2 (40 squares @ $20.00)	$1,600.00
Plumbing:	
(a) Fixtures (1 change) 8 @ $60.00	480.00
(b) Piping (1 change)	300.00
Heating:	
Radiators (1 change) 12 @ $50.00	600.00
Piping (1 change)	600.00
Concrete (1 change)—(includes basement and rear area)	3,150.00
Sheet Metal (2 changes)—(includes flashing, gutters, etc.)	600.00
Carpentry:	
Floors (1 change) 8,000 sq. ft. @ 30c	2,400.00
Trim (1 change)—(includes doors, frames, etc.)	700.00
Store Fronts (1 change per unit in 50 years) 2 @ $3,000.00	6,000.00
Total for 50 years	$16,430.00

or $328.60 per year—called $325.00

No. III
REAL ESTATE COMMISSIONS FOR RERENTING

Rerenting the entire space three times during the 50-year period:
$29,000.00 per year × 10=$290,000.00

4% on the first $20,000.00	$ 800.00
2½% on $270,000.00	6,750.00
	$ 7,550.00
	3
Total for 50 years	$22,650.00

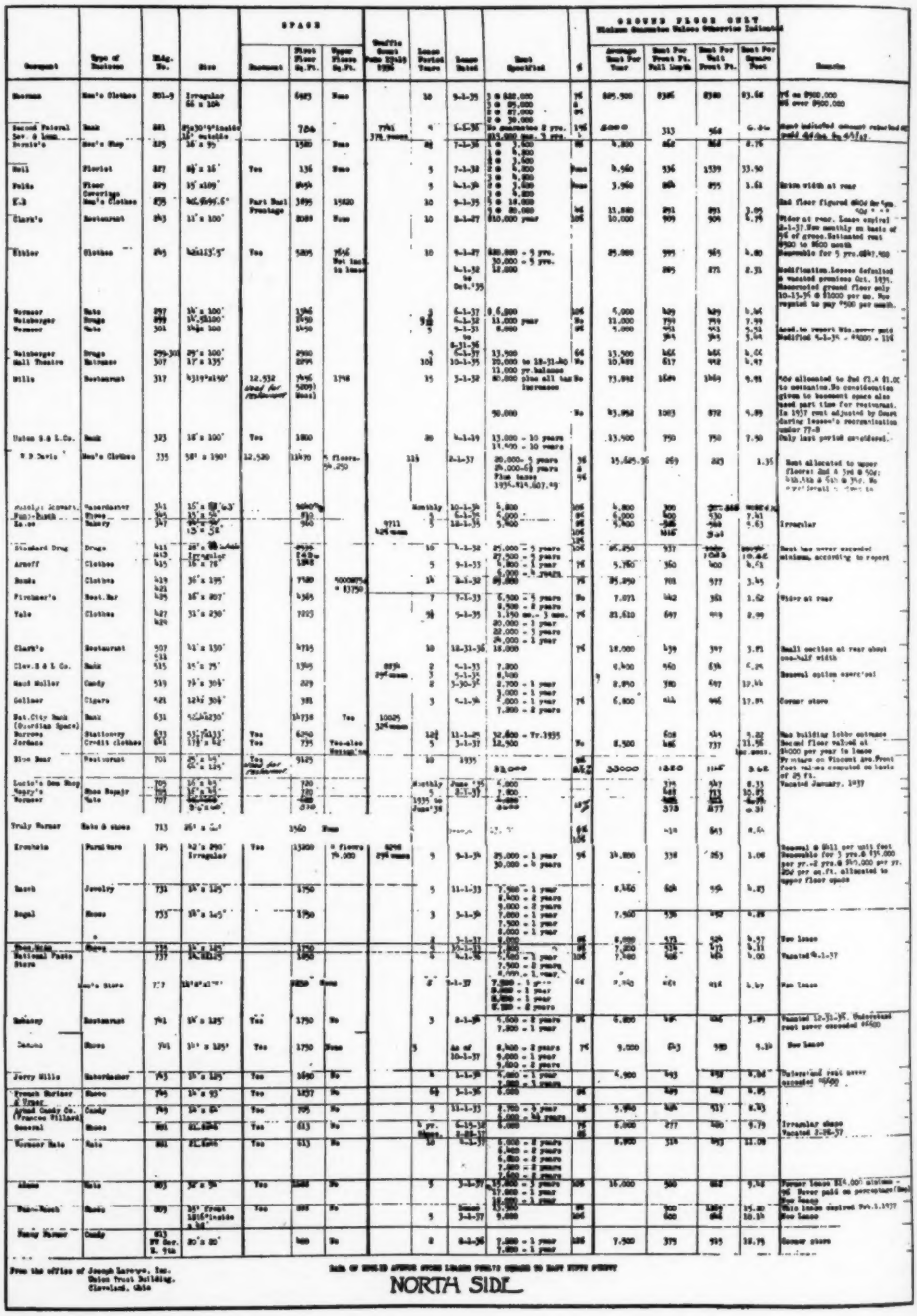
This total divided by 50 equals $453.00—called for this purpose—$450.00

PROSPECTIVE ANNUAL INCOME AND EXPENSE STATEMENT

INCOME:			
2 stores @ $12,500 per year (see computation No. 1)			$25,000.00
Second floor—4,000 sq. ft. @ $1.00			4,000.00
Total			$29,000.00
EXPENSES:			
Taxes—land, 1936 basis		$7,163.16	
building—75% of $60,200=$45,150.00 @ 3%		1,350.00	
Repairs—plumbing, roofing, painting, etc., including unforeseen contingencies, accidents, etc.. not covered by insurance		300.00	
Replacements—including store fronts (see computation No. II)		325.00	
Heat and light (furnished by tenants)			
Insurance—$40,000 fire (80% Coinsurance)	$50.00		
40,000 supplemental	10.67		
20/40 liability	19.15		
		79.82	
Management @ 2½%		725.00	
Vacancies—5% of income		1,450.00	
Loss of rents and adjustments with tenants—2½%		725.00	
Real estate commissions for rerenting space (see computation No. III)		450.00	
Miscellaneous		100.00	
Total			$12,667.98
Income imputable to land and buildings			$16,332.02
Less annual sum to amortize cost of building in 50 years—interest at 6% ($60,200×.06344=$3,819.09) called			3,800.00
Income imputable to land			$12,532.02

VALUE ESTIMATE FOR SMALL PARCEL

Income imputable to land ($12,532.02) capitalized in perpetuity @ 5%	$250,640.00
Front foot value for full depth equals $250,640÷40.0	6,266.00
Per unit foot (factor 1.2475)	5,022.00
Square foot value (8,900 sq. ft.)	28.16
Appraised at $6,500 per foot for full depth	260,000.00
Per unit foot	5,210.42
Per square foot	29.21



NORTH SIDE

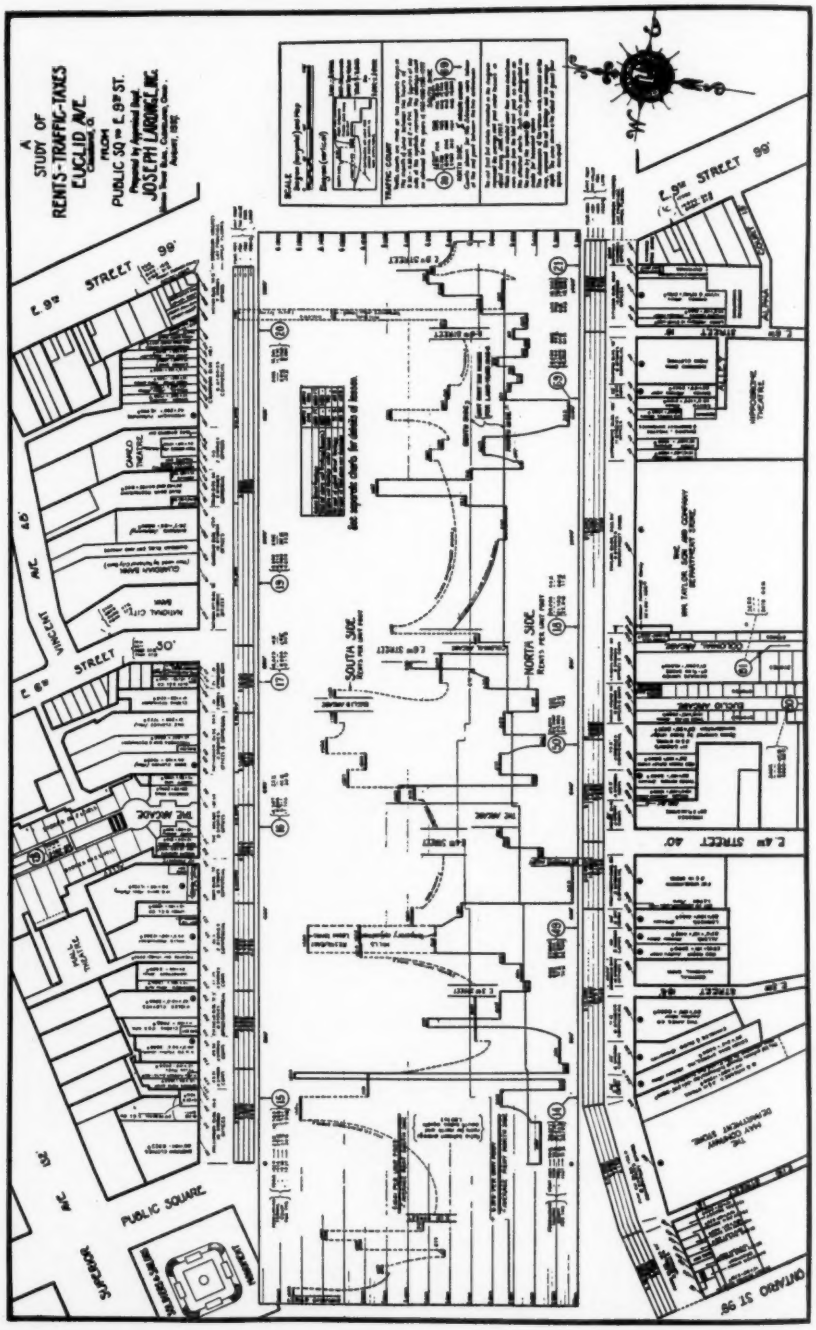
Occupant	Type of Business	Bldg. No.	SPACE: Size	Basement	First Floor Sq.Ft.	Upper Floors Sq.Ft.	Traffic Count June 17-19 1936	Lease Period Years	Lease Dated	Rent Specified	%	GROUND FLOOR ONLY - Unless Otherwise Indicated: Average Rent Per Year	Rent Per Front Ft. Full Depth	Rent Per Unit Front Ft.	Rent Per Square Foot	Remarks
Sony Farmer	Candy	Gar. Ontario	18' x 30'	No	678			3 10/12	6-1-34	$10,000	126			$833	$1,942	$ 36.00 Corner store
Harvey	Shoe	138	20' x 80'	1800					No Lease	3,500 year						8.00 Basement with entrance from st. [illegible]
Betty Gold	Dresses	138	17.5x39	No	436			5	1933	2000 10,000		5000	65¼	1123	20.69	Lease per [illegible]
Clear Eyle	Hosiery	142	13½'x46'	No	618			4	Ren.'34	7,200	126		433	833	11.76	Irregular
Harrow	Hat Shop	144	13½'x30'	No	405			5	Early'34	5,000	Yes		667	1,250	12.35	Corner of alley - No lease
Sugar Bun	Sweet Shop	146	13½'x40'	No	673			5	1935	12,000	Yes		889	1,500	17.83	Rent 1928-9 reported at $18,000
Normal Bakery	Bakery	148	15' x 60'	No	900	Small				9,000	Yes		600	937	15.00	This unit extends through to Prospect Ave.with a frontage of 15 ft. to which has been allocated a value of $990 per unit ft. or $660 for a depth of 30½ ft.The values indicated for Euclid Ave. are predicated on this and the rents accruing for the first two periods only.
Craig's	5 & 10¢ Store	216	90' x 149'	Yes	13900 Entire Bldg. 9820 a.Leased to Bell; frontage	ea	27,555 716 women	25 yrs 11 mos	1-14-36	80,000 to 1-15-42 $1,000 to 1-15-50 90,000 to 1-31-59	None	75,000	1868	1,667	7.78	New Wilson Bros. New Wilson Bros. $50 per sq.ft.allocated to upper floor space
Red Robin Hosiery	Hosiery	222	18' x 100'		1800			3	Jan.'34	15,000	106		833	833	8.33	Rent on a monthly basis equaling about $12,000 per yr.plus taxes. It has been reported that a new lease is in negotiation for a shoe store at a rent of $50,000 plus taxes
Allens	Shoes	224	18' x 100'		1800			5	Jan.'34	18,000	86		1000	1000	11.36	$50 per sq.ft.allocated to upper floor space
Bloom Bros.	Shoes	222	34' x 215'	6680	6680	13000		10	5-1-36	$7,000 - 5 years $9,000 - 5 yrs	76	57,040	1678	1151	6.86	
Stores, Inc. Candies & Nuts	Groceries	226	33' x 180'	Yes	5940	Yes										
The Anne Company	Women's Wear	240	59'x 140' Irregular	Yes	6650	13300 4 floors		3	3-1-34	71,000	40½	54,750	784	685	8.16	Rent on a monthly basis equaling about $12,000 per yr.plus taxes. It has been reported that a new lease is in negotiation for a shoe store at a rent of $50,000 plus taxes 40¢ per sq.ft. allocated to upper floor space. The percentage applies on sales in excess of $480,000. Reasonable for 4 yrs. $72,000 plus 7½¢ of gross sales in excess of $480,000
Pat Robin	Hosiery and Accessories	320	23½2½'x151'	3500	3400	7000		5	1937	34,500	Yes	32,790	1411	1228	9.36	2½¢ per sq.ft. allocated to upper floor space
Allen	Shoes	324	2722'x151'	4107	4107	8214		4	1937	40,500		36,447	1413	1227	9.36	2½¢ per sq.ft. allocated to upper floor space
Lerners	Women's Wear	322	30'x 150'	4496	4496	8992	27,553 [illegible] women	10½	8-1-36	75,000 - 10 years 50,000 - 5 years		53,986	1132	898	8.99	$50 per sq.ft.allow.to 2nd floor
Cole	Shoes	330	16½'x100'	1650	1650					18,000			673	673	8.77	3¢ per sq.ft.allow.to 2nd floor
Three Sisters	Women's Wear	417	30'x 100'	Yes	3000	3000		10	8-21-36	40,000	8%	38,400	1281	1281	12.83	2 ton floors vacant, 40¢ allow. to upper floor space
Red Robin	Hosiery	422	25'x 100'	Yes	2500			4	1936	30,000		30,000	1200	1200	17.00	1 ton floors
McCrory	5-10¢	428	25'x 99'	Yes	2475		26,067 776 women	10½	6-15-36	$7,500 - 5 years 10,000 - 3 years 32,500 - balance		29,500	1180	1180	17.78	Average computed on basis of lot 30 yrs.only.4 of taxes on entire property to be paid by lessee. Total lease estimated to be $12,500 per year
Tom Shim	Shoes	508	19'8"x118'		2195			8	4-1-33	27,500 - 5 years 28,400 - 5 years Rental on basis of 18'.8" x 118		28,212	1436	1282	12.79	Original lease space, 18'8"x80' -1278 sq.ft.Lease terms 1 yrs. $24,000;5 yrs.@ $28,000. As of 4-15-36 18x41 ft.was added to rear making 2195 sq.ft. Lease to run 8 yrs. 3 mos. from 4-1-33
Nat. Peanut Corp.	Nuts	512	13' x 53'		626			4	4-1-35	8,000 - 1 year 9,000 - 1 year 10,000 - 2 years		9,040	711	1065	14.77	Arcade entrance. Vacated 2-1-37
Lerer	Millinery	512	13' x 53'		626			8½	Purchased Leased-8-36	11,700			900	1369	18.69	Annual rental includes bonus to original lessee
Schulte United	Dept. Store	520	51' x 200'	Yes	10200			7	7-1-33	40,000 - 5 years 60,000 - 2 years	6%	52,857	1036	849	4.16	
Clear Eyle	Hosiery	602	15½'x40'		626			5	8-1-36	7,500 - 2 years 8,500 - 2 years 9,500 - 1 year	8%	7,740	505	649	9.36	Rent for first 2 periods reported to include cost allocable to
Sony Farmer	Candy	604	13' x 53'		690			1	5-1-35	7,500	8%		750	961	12.71	
Alma & Sandberg	Millinery	712	16'6"x96'		1584		3,750 504 women	2	1-1-36	8,500	8%		850	1064	15.22	
Ann	Women's Wear	716	16' x 100'		1626			5	7-1-35	18,000 - 2 years 15,000 - 3 years	12½	16,500	825	900	9.25	
Dr. Scholl	Apparel Shoes	724	15'x 72'		1252			10	6-1-32	27,000 - 6 years 15,000 - 4 years	8%	33,000	824	824	7.39	
								13	7-15-29	28,000 - 8 years		25,438	1049	1913	20.48	As per lease.
									6-1-33	30,000 - 4 years 19,000			938	1082	11.61	Modified 6-1-33 for 3 yrs. Re-leased to 1½ for 1 yr.-'37 for 1yr
Carl	Shoes	730	1616"x129'		2189			3	6-1-34	18,000	8%		900	825	7.05	
									Basis Reported	(12,354.31 - 1933 (10,666.20 - 1934 (13,000.00 - 1935 (15,000.00 - 1936			700	648	5.91	
													714	654	6.11	
													700	625	7.05	
Davids	Women's Wear	734	23'x 129'	Yes	2967	5900	18,402 [illegible] women	15	6-1-25	45,000 - 5 years 54,000 - 5 years 60,000 - 5 years	7% 7% 7%	54,908	2126	1669	18.49	75¢ per sq. ft. allocated to upper floor space
								4 1/2	6-1-32	36,000	8%	31,495	1372	1548	10.64	Modification
								2 1/2	1-1-33	20,000	8%	19,575	877	834	9.25	Modification
								4	1-1-37	35,000	8%	30,575	895	812	6.93	New Lease. Rent paid on percentage reported to be $9,589.25-'36
Lerner	Millinery	810	1219'x143'	Yes	1049	No		15	4-1-31	12,000	10%		941	871	8.42	Modification
										9,000			706	654	6.32	Extension. The extension of the modification expires 7-1-37. An attempt is now being made to negotiate new terms which may or may not equal the minimum rent as provided for under the lease.
								1	7-1-36	11,000			862	761	7.78	
Fifth-Avenue	Women's Wear	812	1819'x141'	Yes	2160	No		12	1-15-31 Oct.'32	30,000 22,500			1834 1525	1797 1397	13.89 10.41	Modification for 1 year. The modification expired in Feb.'37. New rental terms are now being negotiated and it is reported that the same will probably approximate the minimum as provided for under terms of lease.
Stone	Shoes	820 830	16'x 141' 34'x 116'		5776	11520		10	11-1-36	42,000 52,000	7%	39,500 39,500	825 825	985 775	10.63 14.25	Lease contains recapture clause if $83000 is not paid after 3 yrs. and $42000 after 5 years.
Betty Gold	Dresses	856	13'x 41'		546		17,338 606 women	5	5-1-36	7,500 9,000	10%		577 692	Based on average length 866 1065	13.94 16.24	$1.00 per sq.ft. allocated to 2nd floor space Recapture clause if rent does not reach $9000

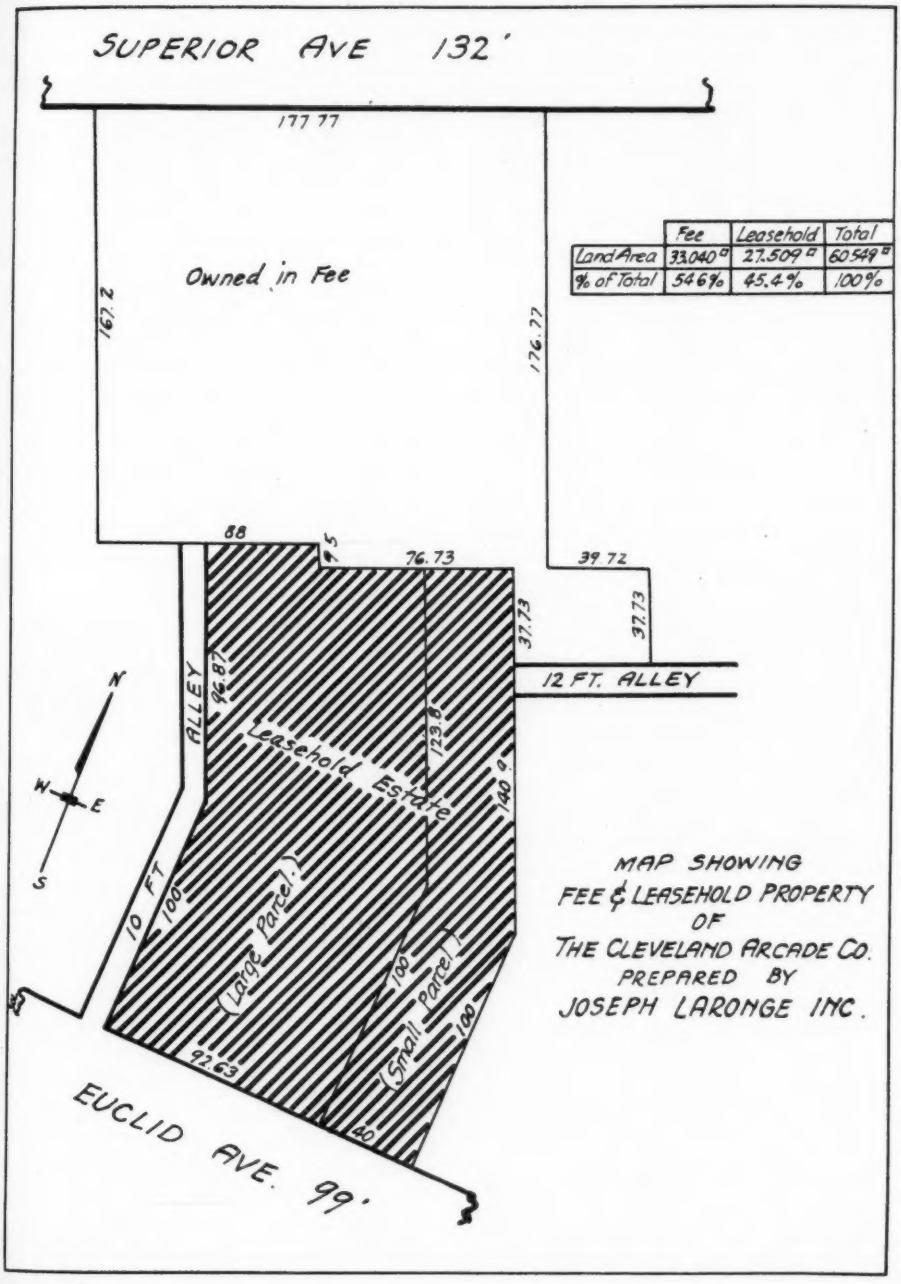
** On Feb. 1, 1930, a lease for 12 years was made with the Hipp Shoe Company. This provided for rentals as follows: 3 yrs. @ $39,999.96 plus one-third of any tax increases; 3 yrs.@ $37,500; 3 yrs.@ $39,999.96 renewable for 3 yrs. @ $42,000.00. This space is now occupied by the Cole Shoe Company under a lease which expired in the spring of 1937. The rent is reported to be as indicated above.

From the office of Joseph Larmon, Inc. Union Trust Building, Cleveland, Ohio.

BASE OF BUILD AFTER FOUR LEADER PERIOD SOLELY TO LAST FIVE YEARS

SOUTH SIDE


A
STUDY OF
RENTS - TRAFFIC - TAXES
EUCLID AVE.
Cleveland, O.
FROM
PUBLIC SQ.™ E. 9TH ST.
Prepared by Appraisal Dept.
JOSEPH LAROCHE INC.
E. 9TH STREET 99'
EUCLID AVE. 45'
VINCENT STREET 30'
E. 9TH STREET
PUBLIC SQUARE
SUPERIOR AVE.
SOUTH SIDE
NORTH SIDE
E. 6TH STREET 40'
ONTARIO ST.


SUPERIOR AVE 132'
177.77
Owned in Fee
167.2
176.77
88
9.5
76.73
39.72
37.73
37.73
12 FT. ALLEY
ALLEY
96.87
Leasehold Estate
129.8
140.0
10 FT
100
(Large Parcel)
100
(Small Parcel)
100
92.63
40
EUCLID AVE. 99'
N
W
E
S
Fee | Leasehold | Total
Land Area | 33.040 □' | 27.509 □' | 60549 □'
% of Total | 54.6% | 45.4% | 100%
MAP SHOWING
FEE & LEASEHOLD PROPERTY
OF
THE CLEVELAND ARCADE CO.
PREPARED BY
JOSEPH LARONGE INC.

Each parcel, for the period of the lease, has the benefit of an easement over adjoining property for driveway purposes. These easements have considerable value since, if they did not exist, a portion of the land in question might be required for a driveway, thus reducing the rentable area of the property. No separate value was, however, accorded the easements since, in determining the anticipated income, buildings were projected covering the entire width of the leased premises. By this method, all the income possible was assumed from the buildings projected and then reflected in the land value, thus giving to the easements their exact worth to the land.

CONCLUSION

Two suggestions might be made by way of conclusion in respect to the type of appraisal which has been described—one of which is specific and the other general. The first involves the matter of deductions from gross income, some of which are all too often neglected by the appraiser. Every one who has owned or managed business property over a considerable period of time knows that he must eventually reckon with items such as replacements, vacancies, rent adjustments, and real estate commissions for rerenting space, just as he must make repairs, pay taxes, pay insurance premiums, furnish heat, etc. The amounts to be allowed for the former expenses may be more difficult to ascertain than the latter, which are less variable, but they should not be omitted from consideration for this reason.

In connection with the appraisal and arbitration covering the parcels herein described, opposing appraisers used a scale of store rents which were actually lower than the schedule set forth above; yet they arrived at front foot values which were from $3,000 to $4,000 greater than those indicated herein—this on account of the omission of some of the expenses connected with property ownership which are almost certain to occur over a long period but which are indefinite in amount. Careful study of actual experience over a reasonably long period of time will enable the appraiser to determine, with a fair degree of accuracy, the allowance to be made for such items.

The second suggestion, and one which oftentimes has been made but bears repetition, involves the need for complete and thorough preparation on the part of the appraiser. Certainly, too much effort cannot be expended in gathering detailed information to support the conclusion, since the value of an opinion to the client, the court, or the arbiter is immeasurably enhanced when it is known that such opinion is given only after due study.

Appraisal Standards

By E. L. OSTENDORF, M.A.I.

DURING the last quarter century the entire world has been passing through an economic revolution. It is clear enough to us now that the World War was not caused merely by political intrigue but by a tidal wave of economic forces out of alignment—or in the process of realignment. The political aspects of the War were nothing more than ripples on the surface of tremendous economic trends.

The same economic trends that caused the World War continue to shape the course of human affairs. It is appropriate to know that fundamental changes have taken place in the business and the social structure of each country in the world since 1910. Gradually, and almost imperceptibly, we have been passing into a new kind of civilization, which few if any of us understand. Indications of the depth and the strangeness of the economic and social currents today are to be found in the Home Loan Bank; the Home Owners' Loan Corporation; the Securities and Exchange Commission; the Reconstruction Finance Corporation; the Social Security Act; the convalescent National Industrial Recovery Administration; the almost unanimous re-election of the New Deal; low interest rates; longer and longer term loans on real estate; 80 per cent insured loans; the Farm Security Administration; the Public Works Administration; the Works Progress Administration; the gravity of the impending housing shortage; and scores of other present-day phenomena. None of these is a *causative* factor. They are *results* of new combinations of economic and social forces. It should be evident to everyone now that we are living in an altogether different kind of country than we thought we were living in a year or two ago.

All of this is of profound significance to real estate and to real estate men. The real estate man deals with values—whether he be a broker, a mortgage man, a builder, a property manager, or an appraiser. His chief concern is the sale of value, the placing of loans on value, the development of site value through construction, the preservation of value through management, or the estimation of value through appraising. The value of real estate, like the value of all other things, arises solely from human needs and human attitudes. It is created by economic and social forces. It is changed and modified by shifts in the trends of human affairs.

Real estate is so intimately and inescapably bound up with all of the business, social, and civic affairs of the people that it affects all forms of wealth. It underlies all wealth. It is vitally important to human welfare and progress. Under any system of government, real estate is and will remain of prime importance to human welfare. Governments fall, civilizations vanish, languages die, and religions perish—but as long as the human race endures, there will be need for land and shelter for dwellings, for places of industry and commerce.

Therefore, the new age into which we are passing—whatever its character may be—will require the use of real estate and the services of real estate men. Of that we can be certain. If we may base our judgment upon the past and the present trends, we may be certain also that real estate problems will continue to become more and more complex. The gradual exhaustion of natural resources, the growing pressure of population, the changing character of our social institutions, the revolutionizing force of new inventions, the development of new business methods, the increasing burden of taxation, the intricate operations of our financial and credit structure—all combine to make real estate utilization

increasingly complex and the job of the real estate man more and more a technical one.

PROFESSIONALIZATION

Under pressure of the new times the vocation of the real estate man is developing into a profession. The public is demanding professionalization through license laws that set up standards of knowledge, ability, experience, and ethical conduct. These standards are being gradually elevated by amendments to the law from time to time. To realize the progress that has been made in this direction, one needs only to compare the situation as it exists today under the present license laws of New Jersey, California, Ohio, Illinois, and other states with the situation as it was in 1910.

Real estate men themselves are demanding professionalization. They have been active in sponsoring license laws. They have developed and adopted codes of professional conduct. They are working everywhere in many different ways to develop and to enforce standards of competency and dependability. Outstanding in this respect is the American Institute of Real Estate Appraisers.

The central purpose of the Institute is the creation of a strong and superlatively fine society of professional appraisers. It seeks to accomplish this primary objective through the adoption of and faithful adherence to a number of different standards designed to insure the highest possible quality in the work and conduct of its members.

THE STANDARD OF COMPETENCY

Paramount among these is the standard of competency. There is no longer any place in this country for immature appraisers (except in schools where they can be trained for positions as assistants to men already competent). Probably no other one thing brought more havoc to personal fortunes during the depression than did incompetent appraisals of real estate. We know now that the selling price of property does not of itself constitute a reliable guide to the value of similar properties. We know that the cost of reproduction less depreciation cannot be depended upon in all cases as a standard of value. We know, further, that capitalization of income—whether gross or net—is more frequently than not wholly undependable as an index of value. Moreover, we know that experience alone is not an adequate qualification for a real estate appraiser.

Competency in the estimation of real estate value involves a great variety of qualifications. Among them is a clear understanding of the nature of value. The appraiser does not acquire this understanding merely by memorizing definitions and court decisions. He acquires it through a close and critical study of economic and social forces, through a constant analysis of the life activities that play upon the real estate in his community, through a study of trends—both past and present—, and through a thoughtful analysis of fundamental concepts.

The able appraiser must have skill in analyzing and interpreting the factors that constitute value. He does not acquire such skill merely by becoming an adept in the solution of equations, the reading of tables, or the mechanical application of logarithms. Analysis in real estate appraising is not a mathematical process.

The appraiser must know not only what is meant by "highest and best use" but also how to estimate the "highest and best use" of any given site. This involves a thorough and complete understanding of neighborhoods in general and of the neighborhood where the subject property is located in particular. He must be able to give convincing reasons why a given use is the "highest and best." No other phase of the appraisal requires broader knowledge or greater skill than this.

He must have a clear understanding of the purposes of appraisals and of how precisely each of these purposes affects the technique of the appraisal process. He must understand each of the three funda-

mental approaches to the valuation estimate, the limitations and the utilities of each.

He must be thoroughly grounded in technique, including the selection and justification of capitalization rates; the estimation of depreciation; the residual methods; the analysis and reconstruction of operating statements; and scores of other methods and devices that are either merely helpful or actually essential to reasonably close estimations of value. At the same time he must be careful not to become technique-minded, so that he becomes lost in the thrill of applying a process and loses sight of the goal which the process is intended to help him achieve.

He must have had experience under a variety of conditions over a considerable period of time. The development of skill waits upon repeated performance. It is acquired only through practice and time—and only when such practice is closely related to theory and is constantly and intelligently analyzed.

"The mountaineer," says George L. Schmutz, "who has observed the sun through a period of sixty years is less qualified by his experience to estimate its distance from the earth than is a high school boy who has had an elementary course in astronomy." Blind experience, like blind practice, may succeed only in placing one into a perfectly good rut, from which he cannot escape.

The public expects a professional man, whatever his vocation, to be highly competent. He must have no peers in ability to give quality service. No vocation can become a profession unless it clearly defines high standards of competency and carefully excludes from its ranks all who fail to qualify under those standards. There is no place for the amateur in a professional society, nor for political preference, nor for advancement based purely upon friendship or emotion.

It is the ambition of the American Institute of Real Estate Appraisers to have each and every one of its members accepted by the public as one who is unquestionably competent. To this end its membership is open only to those who meet its high standards of admission. It has no honorary memberships. Its membership is open to *all* who do qualify, regardless of race, creed, personality, or personal life. There is no place in the Institute for occupational greed or jealousy. The development of a professional society is possible only if its members have the professional attitude of absolute fair mindedness toward others who are qualified in the vocation.

THE STANDARD OF INTEGRITY

Equally important in the development and the advancement of our profession is the standard of integrity. The relations of the appraiser with his fellows, with his clients, and with the public at large, who are or may be indirectly affected by his work,—these relations are as fundamental as are the knowledge of principles and the skill in the application of techniques.

The professional man's integrity must be above reproach. He is unimpeachably honest. The appraiser who meets this standard will not accept an assignment to appraise a property when he knows that he is not qualified to do a good job. Few if any appraisers are equally well qualified to appraise all kinds of real estate. While the fundamentals are the same in all cases, the data programs and the techniques vary somewhat with the kinds of property and the purposes of the appraisal. One appraiser may be a master in the valuation of office buildings, for example, and wholly without experience in valuing theatres, stockyards, toll bridges, or hotels. Such an appraiser is duty-bound to the profession as well as to the client to make no misrepresentations of his ability and experience and to assist the client in securing the services of an appraiser who is qualified to give the needed service.

The honest appraiser will not accept an assignment when such acceptance is contingent upon his reporting a predetermined figure as representing the value of

the property. Abortionists in the medical profession are rare; but they are all too common in the field of real estate appraising. These shyster appraisers have brought more ill repute upon our vocation than any other class of crook in the country.

We cannot make a profession of our vocation unless the integrity of our members is such as to merit the fullest confidence of the public. "M. A. I." must be at all times and in all places a badge of sterling honesty. Everyone — broker, insurance man, judge, juror, investor—must be fully justified in absolute reliance upon the competency and integrity of the M. A. I. To this end the Institute has set up Rules of Professional Conduct which it enforces as a requisite for admission to membership and which it is determined to enforce after admission. These rules should be carefully studied by the candidate for admission. They should be periodically restudied by every member. For it is our duty to our fellow members, to the Institute as such, and to the public to be strictly impersonal and ruthlessly fearless in the enforcement of our standards of honor.

THE STANDARD OF QUALITY

A third general standard to which the Institute subscribes in principle is the professional standard of quality—service regardless of cost. We see this standard observed constantly in the medical profession. When a doctor takes a case, he does his best even though he knows that he will receive no fee at all. The same attitude characterizes all professions and all professional men who are worthy of the name, whether they be priest, lawyer, teacher, doctor, or appraiser.

As President of the Institute, I call upon all M. A. I.s to adopt this standard and to follow it faithfully. To the degree that you fail to live up to this standard, regardless of your competency or your integrity, you fail to that degree in being a professional M. A. I. and are in the same degree a discredit to the Institute.

Already M. A. I. appraisals are looked upon as quality appraisals. Let us justify that competency and strive to merit it to the fullest possible degree. Let us never accept an appraisal assignment where the quality and the thoroughness of the work are to be limited by the size of the fee. Charge a fee that is commensurate with the service and give the very best service of which you are capable—but give the service in any case.

By way of summary, let us note that profound changes are taking place in America as well as the rest of the world. No one appears to know just where we are going, but it is evident to all thinking men that the future will be so unlike the past that we may consider it a new age, dominated by a new type of civilization. This means that much of which we have learned in the past about values and procedures may have no application in the practice of the future. It is expedient, therefore, that we devote careful study to the changing needs and changing attitudes of people in relation to real estate.

We can be certain that whatever the future holds, real estate will still constitute the major part of physical wealth of our country. We can be equally sure that more and more will be expected of the real estate man—and especially of the real estate appraiser. To succeed in his vocation, he must be adequately prepared by training and experience. He must have an intimate knowledge of all the scores of factors of creative value. He must be skilled in analyzing neighborhoods. He must be a master of practical techniques without allowing them to master him.

In short, through both external and internal forces, real estate appraising is developing into a profession. The American Institute of Real Estate Appraisers has taken the lead in the professionalization of the vocation. It champions the standards of competency, quality, and integrity.

Economic Background of the Capitalization Process

By R. M. FISCHER

THE extreme fluctuations in earnings from and the money values of property during the last business cycle evidently have left a deep impression upon the general public. After the bitter disillusionment experienced with the "trading values" of the boom days, it seems that earnings, in spite of their demonstrated instability over a limited period of years, have become more than ever the accepted basis of value as represented by the estimated "present worth of future benefits." "Earnings" rather than "market value" have become the primary consideration of the investor. Evidently then, the process of converting earnings into value by the capitalization process has become more important and now deserves careful scrutiny, particularly by those dealing with long term investments where the period of expected earning power is likely to extend through one or more business cycles—as is the case with real estate.

In paying or receiving the market price, the "trader" is mainly concerned with the current situation of supply and demand; theoretically, however, each sales transaction reflects the opinion of the buyer and seller and their discount of "future benefits." In practice, market prices are often the result of adjustment to prevailing "price levels" or "price ranges"; however, truly representative market price is one of the factors entering the determination of "value" so far as it reflects the composite opinion of interested parties.

The investor—and with him the appraiser—is necessarily guided by the longer term outlook. For instance, the application of the present low money and interest rates to a twenty-year mortgage may be a grievous error without a knowledge of the economic and historic facts which have caused the present situation and a knowledge of the experience which this and other nations have had in the past with deliberate easy money policies after depressions. The appraiser should not go into the dangerous "forecasting" domain of the economist, but he should be familiar with the working and interrelation of the major economic forces and factors: interest rates, prices, forms of money and capital, and last, but not least, that foremost and unsolved phenomenon, the business cycle—a mirror of the human character in its excesses of optimism and pessimism, greed, impatience, and other well-known ingredients.

While there is in existence a vast and learned literature on economic subjects, the professional appraiser finds it difficult to uncover a reasonably detached source of general and historical information among the voluminous and specialized tomes, which often present dogmatic, one-sided views of particular economic or social schools of thought. The following very brief discussion of the highly controversial subjects claims neither originality nor even asserts the "absolute truth" of the stated facts—which are the subject of constant "change through interpretation" and should be accepted or rejected in the light of personal judgment and experience.

Analytical treatment of the rate of capitalization is generally not a practical tool for the appraiser or the investor; the separation of cause and effect in economic data must be based upon assumed premises, which do not necessarily correspond to the conditions found in actuality. Such studies serve to clarify and explain the background and relative importance of the factors which cause the seemingly irrational movements of rates of interest and values from day to day, year to year, or decade to decade and should, therefore, be a part of the mental equipment of the appraiser.

THE NATURE OF INTEREST

Interest may be defined as the rent of a fund of capital. Interest implies essentially the preference for present over future goods or services and quantitatively measures the degree of such "economic impatience" as the premium for present use of capital goods over that available at a later time. This applies equally to income derived from use and to possession of the capital goods yielding such income.

Money interest is the payment for the use of capital or capital goods or rental for the hire of money or commodities. In the forgotten past, it may have appeared to the owner of a capital good that he might make a profit by lending its use, or it may have been the borrower who suggested paying for the use of the article. A fisherman may have agreed to give up some of the fish he expected to catch if he could borrow a fish net. The sum paid was interest—a charge for the use of money or capital goods. The rate charged for the use of capital goods will vary with the supply and demand and the risk involved in their use. The practice of paying interest for the loan of money acts as a stimulus to enterprise and saving, the reward for which is the ability to gain an income without further toil.

The degree of impatience varies between individual users of capital in accordance with their ability and willingness to employ such capital. A man has the choice of renting a house and paying for the use of this capital currently out of his income or investing in its ownership—depending upon his personal circumstances. He may acquire this ownership by borrowing funds to the extent of the present value of future rentals. The creditor defers the use of his purchasing power (of the loaned money), which he might otherwise use for his own immediate enjoyment and satisfaction. The price which the borrower pays to the lender for such waiting is interest and is affected, therefore, by the amount of capital loaned and the period of waiting for its use. The hazards of recovery of the capital amount enter into the willingness of the lender and increase the rate of interest as an inducement to offset such risks. Accordingly, the rate of interest involved in any business transaction in which the terms are expressed in time and money is affected principally by the following factors:

1. The hazards to recovery of the loan.
2. The duration of the loan.
3. The competitive returns on other investment opportunities.
4. Bargaining power of individual debtors and creditors—supply and demand.
5. Legal considerations.

Interest is generally described as the price for the use of money—a premium paid for the loan of capital. The thought has recurred throughout history that interest is a form of exploitation because it appears unjustified to demand an addition to that which was borrowed. Aristotle denounced interest payments on the ground that money has no offspring. Interest was prohibited by Assyrian, Jewish, Greek, and Roman Law. Throughout the Middle Ages the Church waged a losing battle against the taking of interest either as a price for the use of things previously consumed or as a payment for time, which was stated to be a free gift and a natural right of all living beings.

These opinions reflected the reaction to high and exorbitant loan rates between individuals when personal distress was being exploited. Bankers were lending money at 20 per cent interest and selling choice shares in temple incomes 2,500 years ago in Assyria and Babylonia. There was no regular market to protect against exploitation through competitive bidding among lenders.

Pawnshops, banks, and money lenders were licensed, and the taking of interest was explained as a fine for delayed payment. Neither complete prohibition nor even strict regulation of interest rates has ever been effective, because time—and therefore interest—increasingly forms an inextricable part of all business contracts. Today, "interest" and "return on invest-

ment" are accepted working concepts of all established economic systems.

Only property, intangible or tangible, is capital, but capital value expressed in terms of money implies the production of income value in terms of money. In dealing with values we are generally referring to the monetary equivalents. The value of $10,000 in an orchard is created by a net income of $800 from the sale of apples if the rate of interest is 8 per cent. Capital in the form of a machine or factory is a source of goods produced or services rendered; its money value, above production expense, economically justifies the capital value of that property.

Interest reflects not only the price paid for the use of capital but also the fact that such capital permits the arbitrary selection of the type, place, and time of its utilization. In the commodity exchanges, future purchases are traded at varying price differentials. A bushel of wheat delivered in May may be worth more or less than the same quantity and quality of this commodity delivered in October, although the risk in both contracts may be assumed to be identical under orderly market procedure. The differential reflects essentially the anticipation of changed market conditions at the time of delivery. The process of discounting the anticipated value implies the rate of interest in this trading transaction similar to the discounting of anticipated income.

The range of interest and discount rates today is probably as wide as in the periods of the organization of our economic system, except that the hazards of economic relations may have been narrowed down to some extent by the influence of our growing efficiency of organization. Yet the rate of growth of wealth and income of civilized humanity has been greatly accelerated during the last century of industrialization. Evidently the function of supply and demand and the hazards of realization are the only controlling factors for the prevailing range of interest rates.

INVESTING AND TRADING RATE OF INTEREST

Professor Irving Fisher, in his book "The Theory of Interest," makes a distinction between two kinds of interest rates:

1. The *investment opportunity rate*, or the rate of return over cost.
2. The *trading rate of interest*, equal to the market or loan rate paid for the use of money—not capital.

Investment opportunity is utilized by the investor to modify his prospective income by the actual use of property in the production of goods and services. The loan or market rate of interest contemplates only trading irrespective of the use of capital represented by the loan money, such as interest on a Liberty Bond or the money lender's discount. An example of the investment opportunity rate is presented by the anticipated profits in building a factory, developing a farm, or promoting a patented manufacturing process. In these instances the actual rate of return on capital depends upon management and the size of operations, while in trading transactions only size and time are controlling factors.

Capital is attracted to longer term investment, offering opportunities beyond those available in the money market. The difference between the money rate for short term trading use and the returns for productive investment forms a measure of the respective risks involved in the ventures.

The trading rate is not identical with the hypothetical and nonexisting "safe interest" rate applicable to a riskless investment. The concept of the "safe" rate of interest is based upon three assumptions:

1. Assured repayment of the capital amount.
2. Definite maturity date.
3. Assured payment of interest at prescribed dates.

Under such assumptions, we have a rate on loans from which the chance of default has been eliminated and which result in complete liquidity of both capital and interest within the contract obligations.

History indicates that no investment has ever been found which conforms completely to these requirements, and it is not

likely to exist in the future. The will of the founder of the House of Rothschild was drawn up with the intention of providing a maximum safety for the existing capital; investments were to be restricted to the lowest yield government securities of France, England, and Austria, which at that time had the highest reputation for stability, integrity, and taxing power to fulfil their financial obligations. It has been estimated that if the specifications of the will had been carried out to the letter, the major portion of the capital would have been dissipated in less than forty years.

Accordingly, the riskless rate of interest has no practical significance for appraisal problems. We are concerned mainly with a segregation of the trading rate of interest from the investment opportunity rate and a separate consideration of the factors which may modify these rates during the anticipated period of income accrual upon which the capitalization process is based. The following paragraphs deal with the elements and factors of supply and demand which govern the trend and determination of the trading rate of interest.

THE FUNCTION OF MONEY

Money and prices are the mediums of expression for converting the facts of property, also goods and services derived from property, into comparable and measurable units. Money is used as a counter by which the game of business is played; it is the common denominator of the values of all kinds of economic goods.

Money has two outstanding functions:

1. As a medium of exchange to replace the direct barter process.
2. As a suspended purchasing power, which permits the arbitrary selection of time, place, and type of use.

Therefore, there exists an essential distinction between barter transactions and money trading. In the barter of a bushel of wheat against a pair of shoes, an immediate exchange of goods is effected. If payment in money is accepted for the commodity, the final use of its purchasing power is deferred. It is therefore necessary to give separate consideration to the monetary aspect of the factors controlling interest rates. However, this suspension of purchasing power does not ultimately affect existing supply and demand of capital; the fluctuations caused by conversion of capital into money are reflected in temporary deviations up or down from the average rate which would exist in a hypothetical barter market.

Money takes on a variety of forms in our developed economic system:

1. Monetary gold serves as a reserve for our currency system—and normally is a medium of settlement for international trade balances.
2. Currency, including bills issued by various agencies, and coins serve as a medium of exchange for retail trade.
3. Checks and forms of credit are used in clearing transactions through banking institutions.

All forms of money and credit are more or less interchangeable. The gold stock serves as the basis for all forms of money, directly or indirectly, regardless of whether or not the ratio of coverage is fixed by law as under the "Gold Standard" or whether "Managed Currency" is used. The effective amount of money in circulation is controlled by the demand of manufacturing, trading, and retail distributing processes but may be temporarily influenced by a disturbance of public confidence, which results in hoarding and monetary instability.

Wealth and income are evaluated in terms of money; to the uninformed, money frequently takes on the attributes of wealth and income itself. This becomes apparent especially during periods of rapid price fluctuations—booms and depressions—and results in much confused thought in regard to the nature of prosperity and the distribution of wealth and income. It seems difficult to distinguish "money" which is purchasing power to the individual from "money" serving as a medium of exchange and distribution for the

national economy and larger governmental units.

Effective income from property, in the form of services or goods produced, tends to be more stable than the monetary measure of such income. An apartment house potentially provides shelter for a given number of families during good and bad times, regardless of the large fluctuation in its market value; likewise, no mortgage foreclosure ever affects the soil fertility of a farm.

THE FUNCTION OF PRICE

The economic function of price in terms of money is to facilitate the production and distribution of goods and services.

Since production cannot long proceed at any given rate unless daily purchases take the goods away at the rate of production, any interference with the orderly and continuous movement of goods into consumption results in economic maladjustments. Price inflexibility is probably the essential explanation of the business cycle—it results from human character, which finds expression in a tendency to artificial price stabilization by social, economic, and legal forces.

The capitalistic system has often been attacked during depression years as an unworkable failure; yet it is difficult to conceive how any machine can turn with the "price-fixing" monkey wrench among its gears. A study of the relative activity of various industries during the last few years will show that those with "rigid price structures" have suffered far worse than the more flexible ones, regardless of whether the products were considered luxuries or necessities. Revival of the building industry on the scale necessary to provide the normal housing demand clearly awaits a breakdown of the iron price clamp held by both labor and capital under government sponsorship.

SUPPLY AND DEMAND FOR CAPITAL

Since interest may be defined as money paid for the use of loaned capital, it serves indirectly as a measure for the price of capital under given conditions of supply and demand. The observations regarding the economic function of prices in general apply equally to interest. Artificially low rates of return deter capital accumulation, while high rates induce savings in every form and are the stimulus for capital formation. Therefore, consideration of the elements of capital supply and demand will be valuable in judging the tendencies of interest rates.

The rate of interest, like the value of a commodity, is controlled at any one time chiefly by the demand, which causes the short term fluctuations. The longer term trend reflects mainly the supply factors.

Demand factors: Capital, in the form of property, wears out and must be replaced if the service it provides is to be maintained. This refers to the normal depreciation of factories, residences, and machinery, as well as the depletion of forests and other agricultural or growing resources. Much property is destroyed in wars; floods, earthquakes, and other disasters likewise take a continuous toll of property. Moreover, the changes in utility reflected in obsolescence and inadequacy require capital replacements even before the normal life expectancy and potential usefulness are exhausted.

The growth of population requires constant enlargement of our capital facilities, even assuming the maintenance of our present mode or standard of living. History indicates that under the influence of the technical progress of our civilization the trend of the use of capital is steadily upward. The investment per capita devoted to the production of goods and services is the most effective measure of our material standard of living. The automobile, replacement of animal power by steam, gas, and electric energy, larger and more completely equipped housing facilities, etc., all call for additional capital investment in order to reduce human toil. The expansion of the civilized races into new territories is accompanied by the de-

mand for and the creation of large, new capital investments—for instance, the settlement of the North American Continent during the last century.

It follows that the demand for capital is always present but may be modified in the future by a stabilization both of the population and of the standard of living.

Supply factors: Capital is formed out of savings, which represent a deferment or self-denial of present income in favor of anticipated greater services in the future. Such savings are of two kinds: voluntary and involuntary.

Voluntary savings are generally made by individuals who prefer to own and control rather than pay currently for the use of capital facilities; for example, residences, pianos, and automobiles or funds for the education of children, for use in old age, etc. Such savings, however, comprise a comparatively small portion of the sources of capital accumulation.

Corporate enterprises which desire continuity of operations generally set aside reserves in the form of surplus funds or investments for the replacement of those portions of the properties which are subject to wear and tear and destruction in other ways. This type of accumulation is influenced by policies of public taxation and finance and may be classified as semi-involuntary.

Involuntary savings are the largest source of capital accumulation. They result mainly from the uneven distribution of wealth. It is impossible for individuals and corporations actually to consume more than a certain maximum of goods and services; the excess over this maximum for wealthy individuals and institutions results in involuntary savings, which find their way into new capital investments. Therefore, whether socially justified or desirable, this "maldistribution" performs a definite function in our economic system, and its control—if effective—by legislation or otherwise is likely to produce a reduction in the supply of capital funds. An increase in the rate of interest or return on capital for the long term future will necessarily follow.

Observed relations: The size and trends of the national income in relation to established living standards are important in their effect upon capital accumulation. A nation living within and below its means will accumulate capital; the desire of the broad masses of a population to maintain the highest known, established standard of living tends toward a scarcity of fixed capital facilities through conversion into consumer goods. This conclusion is true only to the extent that all available manpower and production facilities are fully utilized—a theoretical abstraction. Actually, large unemployment of both exists at all times. This under-utilization is equivalent to destruction of potential capital, which would otherwise be consumed or accumulated.

The foregoing is a rather simplified and incomplete presentation of an intricate subject, merely with the idea of showing in a large outline the forces which act upon the rate of interest. It omits consideration of the process and means by which savings are converted into capital investment; the credit system and monetary factors have been arbitrarily neglected.

PRICES AND THE RATE OF INTEREST

In any discussion of the effect of fluctuations in the price level upon the rate of interest, the distinction between prices representing individual exchange values of commodities in terms of dollars and that composite index of all prices prevailing at one time or in one place called "the price level" must be kept in mind. The latter serves to measure relative changes and has no independent significance; its numerical amount depends entirely upon the selection and weighing of the commodities, wages, or services which are used to compile the index. While there is a "right price," namely, that which will move the goods, there exists no "right price level," although this notion has been widespread at various times.

Changes in individual and group prices are generally more intense but of shorter duration than the cycle of changes in general price levels. These changes affect the purchasing power of money. Since interest is expressed in money, the rate of interest is affected by fluctuations in the price level.

This factor is of importance in a study of capitalization rates wherever the expectancy of economic life in property extends over a number of years, during which substantial fluctuations in the price level may be anticipated.

A purchaser of an equity in a real estate investment today would anticipate some future advantage through the effect of potential inflation in some form or another. Assuming stable operating characteristics of a commercial property, the purchase of which is contemplated, the investor would have been in a position to borrow money under a primary loan with large coverage and at relatively low interest rates in the artificially easy money market of the past year or two, especially if an existing issue were to be refunded. If inflation would occur, the fixed charges represented by interest on the funded debt would not increase, and therefore the earning power of the equity would increase with the higher rentals inevitably accompanying the higher price level.

On the other hand, assuming an increase in the price level of 60 per cent and an economic life of the property of twenty years, the seller should demand an addition of approximately 3 per cent to his capitalization rate to obtain a proper return, as compared with a rate established under conditions of monetary stability in terms of stable purchasing power. The appraiser must discount the indicated trends of the money market and the price level in current sales transactions if he is to arrive at a valuation which properly reflects all of the elements entering into the reasonable consideration of buyer or seller.

The foregoing comments apply exclusively, of course, to fixed interest-bearing investments, such as mortgages and bonds. In capitalizing earnings accruing to the owner's equity, consideration must be given to the large additional hazards introduced into the estimate by potential price level fluctuations. For real estate, for instance, a higher rental level may produce larger revenues, but experience in other countries has demonstrated that these may be more than offset by higher operating costs and taxes. Moreover, government price fixing of rentals in the lower grade residential sections may also have to be discounted.

These interrelations have formed the subject of much controversy in recent years. The severe decline in prices during the depression has directed public attention toward this problem, without much definite result. Tables I and II are taken from the book, "The Theory of Interest," by Irving Fisher, and show the fluctuating interest rates in London and New York since 1820, together with an index of wholesale prices. These tables show little correlation between interest rates and the changes in the price level, especially if compared over short term periods. Tables III and IV, from the same book, show averages of these interest rates over ten-year periods and the corresponding "effective interest rate" adjusted to a basis of stable purchasing power. This rate is computed by subtracting from the money rate the rate of annual change in the price level for the same period. This adjustment is designed to demonstrate that the rate of interest depends upon the standard of value in which present and future goods are expressed. However, the deviations of the *current rate* of interest from the *effective rate* are so great as to suggest a general lack of foresight by the average investor.

TABLE I
London Rates of Interest and Wholesale Price Index, 1820-1927

YEAR	INTEREST RATES		WHOLESALE PRICE INDEX (1867–1877 = 100)	YEAR	INTEREST RATES		WHOLESALE PRICE INDEX (1867–1877 = 100)	YEAR	INTEREST RATES		WHOLESALE PRICE INDEX (1867–1877 = 100)
	Market	Bank			Market	Bank			Market	Bank	
1820			112	1860	4.1	4.2	99	1900	3.7	4.0	75
1821			106	1861	5.5	5.3	98	1901	3.2	3.8	70
1822			101	1862	2.4	2.5	101	1902	3.0	3.3	69
1823			103	1863	4.3	4.4	103	1903	3.4	3.8	69
1824	3.5	4.0	106	1864	7.4	7.4	105	1904	2.7	3.3	70
1825	3.9	4.0	117	1865	4.6	4.8	101	1905	2.6	3.0	72
1826	4.5	5.0	100	1866	6.7	6.9	102	1906	4.0	4.3	77
1827	3.3	4.5	97	1867	2.3	2.6	100	1907	4.5	4.9	80
1828	3.1	4.0	97	1868	1.8	2.1	99	1908	2.3	3.0	73
1829	3.4	4.0	93	1869	3.0	3.2	98	1909	2.3	3.1	74
1830	2.8	4.0	91	1870	3.1	3.1	96	1910	3.2	3.7	78
1831	3.7	4.0	92	1871	2.7	2.9	100	1911	2.9	3.5	80
1832	3.1	4.0	89	1872	3.8	4.1	109	1912	3.6	3.8	85
1833	2.7	4.0	91	1873	4.5	4.8	111	1913	4.4	4.8	85
1834	3.4	4.0	90	1874	3.5	3.7	102	1914	2.9	4.0	85
1835	3.7	4.0	92	1875	3.0	3.2	96	1915	3.7	5.0	108
1836	4.2	4.4	102	1876	2.2	2.6	95	1916	5.2	5.5	136
1837	4.5	5.0	94	1877	2.3	2.9	94	1917	4.8	5.2	175
1838	3.0	4.1	99	1878	3.5	3.8	87	1918	3.6	5.0	192
1839	5.1	5.1	103	1879	1.8	2.5	83	1919	3.9	5.2	206
1840	5.0	5.1	103	1880	2.2	2.8	88	1920	6.4	6.8	251
1841	4.9	5.0	100	1881	2.9	3.5	85	1921	5.2	6.2	155
1842	3.3	4.3	91	1882	3.4	4.1	84	1922	2.7	3.7	131
1843	2.2	4.0	83	1883	3.0	3.6	82	1923	2.7	3.5	129
1844	2.1	2.5	84	1884	2.6	3.0	76	1924	3.5	4.0	139
1845	3.0	2.7	87	1885	2.0	2.9	72	1925	4.1	4.6	136
1846	3.8	3.3	89	1886	2.1	3.0	69	1926	4.5	5.0	126
1847	5.9	5.2	95	1887	2.4	3.3	68	1927	4.3	4.7	122
1848	3.2	3.7	78	1888	2.4	3.3	70				
1849	2.3	2.9	74	1889	2.7	3.6	72				
1850	2.2	2.5	77	1890	3.7	4.5	72				
1851	3.1	3.0	75	1891	2.5	3.3	72				
1852	1.9	2.2	78	1892	1.5	2.5	68				
1853	3.7	2.7	95	1893	2.1	3.1	68				
1854	4.9	2.1	102	1894	1.0	2.1	63				
1855	4.7	2.9	101	1895	.8	2.0	62				
1856	5.9	6.1	101	1896	1.4	2.5	61				
1857	7.1	6.7	105	1897	1.8	2.6	62				
1858	3.1	3.2	91	1898	2.6	3.3	64				
1859	2.5	3.7	94	1899	3.3	3.8	68				

SOURCES:

The market rates of interest:

The prevailing rate on prime bankers' or merchants' three months bills.

1824–1858: Evidence of D. B. Chapman before the Committee on the Bank Act, 1857, Sess. 2, X, Pt. I, p. 463. (Also reprinted in Hunt's Merchants' Magazine, Vol. 41, 1859, p. 95.)

1858–1927: Computed from The Economist, *Commercial History and Review*, Supplement, published annually.

The bank rates of interest:

The discount rate of the Bank of England.

1824–1843: *Burdett's Official Intelligencer*, 1894, p. 1771.

1844–1885: *Report of the Royal Commission on Depression of Trade*, 1886, p. 373.

1885–1927: Computed from The Economist, *Commercial History and Review*, Supplement, published annually.

Wholesale Price Index (1867–1877 = 100):

Sauerbeck-Statist, Journal of The Royal Statistical Society, Vol. XCI, Pt. III, 1928, pp. 394-411.

(Taken from the book "The Theory of Interest" by Irving Fisher. McMillan & Co., 1930, $6.00.)

TABLE II

New York Rates of Interest and Wholesale Price Index, 1866-1927

YEAR	INTEREST RATES MARKET		WHOLESALE PRICE INDEX	YEAR	INTEREST RATES MARKET		WHOLESALE PRICE INDEX
	60–90 day paper	4–6 month paper	(1913 = 100)		60–90 day paper	4–6 month paper	(1913 = 100)
1866	6.8		168	1900	4.4	5.7	81
1867	8.2		151	1901	4.3	5.4	79
1868	7.7		142	1902	4.9	5.8	84
1869	9.6		135	1903	5.5	6.2	86
				1904	4.2	5.1	86
1870	7.0		125	1905	4.4	5.2	86
1871	6.8		119	1906	5.7	6.3	89
1872	8.9		122	1907	6.4	6.7	94
1873	10.1		121	1908	4.3	5.0	90
1874	6.0		117	1909	4.0	4.7	97
1875	5.5		112				
1876	5.2		104	1910	5.0	5.7	101
1877	5.2		97	1911	4.0	4.8	93
1878	4.8		89	1912	4.7	5.4	99
1879	5.1		85	1913	5.6	6.2	100
				1914	4.8	5.5	98
1880	5.2		94	1915	3.5	4.0	101
1881	5.2		93	1916	3.4	3.8	127
1882	5.7		95	1917	4.7	5.1	177
1883	5.6		93	1918	5.9	6.0	194
1884	5.2		87	1919	5.4	5.6	206
1885	4.1		82				
1886	4.8		81	1920	7.4	7.5	226
1887	5.8		81	1921	6.5	6.8	147
1888	4.9		83	1922	4.4	4.7	149
1889	4.9		83	1923		5.0	154
				1924		3.9	150
1890	5.7	6.9	81	1925		4.0	159
1891	5.4	6.5	80	1926		4.2	151
1892	4.1	5.4	75	1927		4.0	147
1893	6.6	7.6	77				
1894	3.0	5.2	69				
1895	3.7	5.8	70				
1896	5.8	7.0	67				
1897	3.5	4.7	67				
1898	3.8	5.3	70				
1899	4.2	5.5	75				

SOURCES:

The market rates of interest:

Prime two-name 60–90 day commercial paper rates;
Review of Economic Statistics, January, 1923, p. 28.
Prime two-name 4–6 month commercial paper rates;
1890–1918: Review of Economic Statistics, January, 1919, p. 95.
1919–1922: Review of Economic Statistics, June, 1923, p. 132.
1923–1927: The Survey of Current Business, February, 1928, p. 127.

Wholesale Price Index (1913 = 100):

Unites States Bureau of Labor Statistics, *Index Numbers of Wholesale Prices on a Pre-War Base, 1890-1927;* also Monthly Labor Review, February, 1927, p. 167.

(Taken from the book "The Theory of Interest" by Irving Fisher. McMillan & Co., 1930, $6.00.)

TABLE III

Rates of Interest in Relation to Annual Rates of Change in the Price Level, London, 1825-1927

	BANK RATE	MARKET RATE	ANNUAL RATES OF CHANGE IN THE PRICE LEVEL	REAL INTEREST IN COMMODITIES (BANK)	REAL INTEREST IN COMMODITIES (MARKET)
1825–1834	4.2	3.4	−3.0	+7.2	+6.4
1834–1839	4.4	4.0	+3.3	+1.1	+0.7
1839–1852	3.7	3.4	−2.7	+6.4	+6.1
1852–1857	3.8	4.7	+5.8	−2.0	−1.1
1858–1864	4.4	4.2	+2.4	+2.0	+1.8
1864–1870	4.3	4.1	−1.6	+5.9	+5.7
1870–1873	3.7	3.5	+4.8	−1.1	−1.3
1873–1896	3.2	2.5	−2.6	+5.8	+5.1
1896–1913	3.6	3.1	+1.9	+1.7	+1.2
1914–1920	5.2	4.4	+14.5	−9.3	−10.1
1920–1927	4.8	4.2	−10.9	+15.7	+15.1

(Taken from the book "The Theory of Interest" by Irving Fisher. McMillan & Co., 1930, $6.00.)

TABLE IV

Rates of Interest in Relation to Annual Rates of Change in the Price Level, New York, 1860-1927

	PRIME TWO NAME 60–90 DAY COMMERCIAL PAPER RATES	ANNUAL RATES OF CHANGE IN THE PRICE LEVEL	REAL RATE OF INTEREST IN COMMODITIES (MARKET)
1860–1865	6.9	−14.3	−7.4
1865–1871	7.8	+8.1	+15.9
1871–1879	6.4	−4.3	+10.7
1879–1889	5.1	−0.2	+5.3
1889–1896	4.9	−3.1	+8.0
1896–1915	4.7	+2.1	+2.6
1915–1920	5.1	+14.9	−9.8
1920–1927	5.0	−6.3	+11.3

(Taken from the book "The Theory of Interest" by Irving Fisher. McMillan & Co., 1930, $6.00.)

Due to the devaluation of the gold content of the dollar, the easy money policy, and the increase in bank reserves, we are likely to witness a substantially higher price level within the next few years. Capitalization rates applicable to long term investments, in order to provide for reclaiming the purchasing power of the capital loaned, should increase in accordance with the estimated change in the price level. Yet we observe that actually the investing public is satisfied at present by extremely low yields from long term investments. Whether this condition reflects an artificial situation, subject to violent adjustment, cannot now be foreseen.

THE QUANTITY THEORY OF MONEY

The relations between the price level, the volume of money in circulation, and the

interest rate, being of vital importance in every calculation and business transaction involving time, have been the subject of exhaustive theoretical study, and a voluminous literature dealing with this subject has been developed. However, there exists little, if any, definite conclusion which would be of assistance to the appraiser or investor, essentially because the factors of time, price, and money are so interwoven that it proves impossible to separate these elements in such a way as to show their independent causal connections.

The problem is further obscured by the difficulty encountered by the interrelations of the various prices and services which constitute a "price level." Innumerable factors act upon the individual prices of commodities, etc., but they are all affected by the trend of the general price level. The quantity theory of money deals only with the latter. It may be expressed by the following premises:

1. The price level varies directly with the quantity and velocity of circulation of money.
2. The price level varies inversely with the volume of goods transferred by money.

While the numerical relations—whether arithmetic, geometric, or otherwise—between the factors of the equation are unknown, the truth of these premises as general postulates seems obvious. It appears of comparatively little consequence whether price movements cause the fluctuations in the volume of money in circulation and changes in the money rates of interest or whether the price level is the result and not the cause of the conditions of supply and demand. Any conclusions which might be drawn from this theory, even if more definite knowledge regarding the relations were available, would apply only to a hypothetical, stable condition of business, when fluctuations in volume of production, trade, and prices are comparatively slight.

Observation demonstrates that when money is produced more rapidly than goods, prices increase out of proportion, reflecting demand for merchandise and foreign exchange in anticipation of further devaluation of the monetary unit. Goods are withdrawn from supply in anticipation of higher prices, and consequently the trend toward a higher price level is intensified. Since an additional money supply is required to maintain the price level upon a stable basis under such conditions, the movement feeds upon itself. When the expansion of money in circulation is finally stopped, prices recede rapidly and a collapse of the structure of prices ensues at a rate greater than warranted by the contraction in the volume of money, because the velocity of circulation decreases simultaneously under the influence of hoarding.

History of inflation movements have conclusively demonstrated that the changes in the price level, as well as the changes in interest rates, are at no time in proportion to the money supply.

The amount of currency in circulation is at all times determined by the needs of retail trade and other exchange operations of business, which in turn depend upon the price level and general business conditions; seasonal fluctuations in business are paralleled by a contraction and expansion in demand for currency and other forms of money. If a direct relation between the total quantity of money and the price level is assumed (including gold reserves, coins, currency, check clearings, and bank credit in various forms), this could be controlled by the regulation of the discount rates determined by the Federal Reserve Bank System. Past experience seems to disprove this theory for extended periods.

CIRCULATING VELOCITY OF MONEY

The velocity of circulation measures the turnover of money or the effectiveness of its utilization by the monetary and banking organizations under varying conditions of business activity. Production and marketing of goods require liquid forms of capital—money—with which to finance operations. During dull seasons, money becomes relatively easy and circulation slows down.

It is obvious from the foregoing that the largest factor in the relation between prices, money, and the rate of interest is the velocity of circulation. Normally, and assuming that there are no obstacles in the channels of commerce, a stable flow would result. Observed changes in the velocity of the flow are slow, and some are quite regular. Causes which accelerate or retard the circuit flow of money are:

Accelerating factors:

1. Increased payments to wage earners. Wage earners spend quickly and for consumer goods (finished goods). During times of high wages and profits, spending for immediate consumption increases.
2. Anticipation of higher prices. Inventories are then turned over more quickly and a larger proportion of income is spent for commodities and less accumulated for savings.
3. Increased instalment buying and other forms of personal credit tend to increase consumption velocity.
4. Increased use of bank checks and clearing arrangements in business transactions reduce the need for cash on hand and in the banks.
5. Increased efficiency and standardization in manufacturing as well as simplification of distribution systems from manufacturer through wholesaler and retailer to consumer effect a reduction in time and capital requirements.

Retarding factors:

1. Increased investment in property, real estate, machinery, tools, and other forms of long-lived capital, especially if neutralized by under-utilization.
2. Increased reserves and surplus built up by corporations out of earnings and not paid out in dividends.
3. Increased taxation because government agencies are slow in disbursing money.
4. Price fixing in any form.

The degree to which these factors influence prices in accordance with the quantity theory of money is a matter of conjecture since no quantitative study of the behavior of prices has ever been successfully undertaken. The numerous influences which act contemporaneously can hardly be analyzed upon the basis of empirical data. The foregoing outline serves merely to emphasize the interrelation of money, prices, and interest rates and to call attention to their importance as a background for all earnings forecasts involving extended periods of time, such as are generally encountered in real estate appraisals.

INTEREST RATES AND THE BUSINESS CYCLE

The behavior of money rates is one of the controlling factors in producing booms and depressions, or the consequence, depending upon which of the opposing theories may be acknowledged. During periods of business expansion we normally observe a contraction of available capital and a stiffening of interest rates due to a limited supply for long term investment. A greater volume of saving and of capital accumulation is induced until finally a disproportionate share of the national income is invested in capital production facilities. At this point the yield of investment decreases due to severe competition in the consumer field, which has been deprived of purchasing power by the excessive capital accumulation.

During periods of depression, liquidation of debts and decreased loans and bank deposits produce excess bank reserves; money also accumulates in the banks due to the decreased demands of trade. Low interest rates result, which make business undertakings more attractive. Bonds can be marketed at favorable rates, and this stimulates building of plants and other permanent forms of investment. Loans to business return to banks in the form of increased consumer purchasing power and demand for goods. The larger volume of trade stimulates an advance in the price level. Finally the point is reached where the diminishing bank reserves limit the further expansion of credit and business, and the exhausted supply of credit brings prosperity to its end.

Bond prices usually advance during periods of recovery from depression and tend to decline during prosperous times. Demand for capital for long and short term use competes in the money market for the use of funds. For this reason bond yields

and general money rates usually show similar trends. The fluctuations in bond yields are slower than those in commercial paper rates. When business conditions improve, banks dispose of bond investments in order to secure funds for business purposes. Accordingly, bond prices fall, and bond yields rise.

During periods of liquidation and depression the inactivity of trade decreases the demand for commercial loans, and funds are released for the purchase of bonds. Commercial paper rates fall together with and even below the bond yields, and it becomes more profitable to buy bonds than to loan money for short term transactions. These observations must be modified, of course, to reflect temporary psychological and panic conditions, such as were witnessed during the years 1932 and 1933.

The duration of depressions appears to be determined largely by the flexibility with which the price structure is able to adjust itself to the lower level of returns. The function of investment banking should be to assist in the adjustment of the capital yields to the movement of the business cycle by discouraging new ventures through high rates during peaks of prosperity and stimulating business during periods of depression. Artificial stabilization of the rate of interest results generally in under- or over-stimulation, due to the effect of psychological factors.

The business cycle causes maladjustments in the allocation of the national income between the different classes in the community and therefore causes changes in the demand for goods. During prosperous times the demand for consumption goods and luxuries tends to increase faster than that for capital goods. The accumulating corporate surpluses result in a tendency toward over-investment, that is, over-expansion of factories, equipment, and other means of production.

Increased earning capacity of business enterprises in the form of increased money values of plants, goodwill, franchises, etc. results in high prices for established businesses, corporation shares, mines, and farms. Funds for their purchase are frequently loaned, and the interest on these loans becomes a fixed charge on the new property. During the subsequent decline in business these charges are found burdensome, and a complete reorganization of the financial structure becomes necessary upon the basis of lower capital structures. Advantage is also taken of the "easy money conditions" to reduce interest charges on funded debts by refinancing.

Money and interest rates prevailing in New York since the middle of the last century accurately reflect the recurring panics and depressions of business, which occurred in 1873, 1884, 1893, 1903, and 1907, as shown in Table II. Peaks of money rates coincide with the bottom of business activity.

The average rate of interest on the highest grade, short term investments would be approximately equal in all commercially organized nations if capital were free to flow through the channels of world trade. A study of the history of interest rates shows considerable variations even prior to the present trade barriers through customs and exchange regulations.

The lowest rates during the last century were found in England; they were somewhat higher in France and were the highest in the United States. These differences resulted from variations in the supply and demand for capital. After nearly two centuries of internal peace and increasing profits from industrial activities, the accumulation of capital reached large proportions in England, which caused low money rates and later an overflow into foreign loans in order to find advantageous employment for funds. This tendency was but little affected by the recurring losses through loans for war purposes.

In France, although inherently wealthy in resources, capital accumulation was hindered by wars and instability of government policies. Taxation removed substantial portions of the nation's savings,

yet there was sufficient accumulation to yield ultimately an overflow into other countries where demand for use of capital in the creation of industrial production facilities was great. Accordingly, the internal interest rates remained comparatively low on short term money investment.

Similar observations apply to the trend of interest rates in Germany, Austria, and the Scandinavian countries, where the high rates prevailing during industrialization dropped as soon as the stage of accumulating resources and overflow to newer countries was reached. Among the nations offering opportunities for profitable capital investment were the United States, Canada, Australia, South Africa, Argentina, and Chile, where the development, which had formerly taken place in Europe, was repeated. The geographic conquest was accompanied by a transfer of accumulating capital from the older sections—in the United States, from the developed industrial centers along the Atlantic Coast to the Middle West, the South, and finally the Pacific Coast.

The differentials in interest rates due to this gradual development can be traced readily in the basis of mortgages and other long term contracts, as well as in the rates for bank loans for speculative investment, and their influence of the old "customary" rates survives today in many locations.

The rate of return on investments of similar risk would be theoretically identical if the transfer of capital from one country to the other or even from one section to another could be effected without introducing additional costs or risks. There exist many obstacles in the way of regional and international flow of capital. After the universal default of international loans, the rates for commercial loans were raised correspondingly to offset the demonstrated higher risk of capital, which must cross political boundaries. As a result, the flow of international capital has been greatly impeded, and the industrial development of backward nations has been retarded.

The differentials in interest rates are not only of geographical nature. Established banking connections, credit, and reputation tend to lower the cost of capital of corporate units, even though the securities may not offer any competitive advantage nor safety, liquidity, nor return over others with a less established standing and record.

However, such interest differentials tend to be equalized because of the widespread distribution of loaning facilities and long and short term investment by banking institutions and the national security exchanges. The differentials between short term investments and long term funds depend upon the fluctuations in supply and demand, which in turn reflect the mental attitude of the businessman who maintains the liquidity of his funds depending upon the outlook toward a lower or higher price level.

The Expert Witness from the Lawyer's Point of View

By ROBERT F. BINGHAM

TECHNICAL testimony is furnished by witnesses trained and experienced in the particular business or profession from which the evidence is required. The doctor called as a witness will testify upon the subject of medicine or surgery; the engineer will give evidence in his particular branch of technical science; and the Realtor will give his opinion upon real property values. Such witnesses are called "experts," and the character of the evidence furnished is called "expert testimony."

Expert testimony differs materially from the ordinary fact testimony presented by lay witnesses. The lay witness is confined to stating occurrences, relating happenings, and describing what he actually saw or heard. He may not express an opinion or state a conclusion based upon what he saw or heard. He must relate facts alone, not conclusions from facts.

The expert may testify as to facts, but primarily he states facts as an introduction to expressing his conclusion from the facts or expressing an opinion thereon. Thus, a Realtor may recite facts relating to a particular sale or lease, give data upon pedestrian traffic, or testify as to store rentals prevailing on a street in order to predicate his opinion of land values of a property.

We are not concerned with a discussion of "fact testimony" and the "lay witness." We are concerned with the "expert witness," the character of his testimony, and how it should be given to be most helpful to the cause he advocates.

THE EXPERT WITNESS AS AN ADVOCATE OF VALUE

I am using the word "advocate" advisedly in speaking of the expert called to testify upon his specialty. Unless the witness is in a sense an advocate, he is unable to "sell" his opinion to those whom he is called upon to convince. When the Realtor gives his opinion that a particular property has a front foot value of $5,000 a foot, he must be prepared to support his opinion by a statement of the basis for his opinion and the data he obtained which caused him to reach such valuation. In doing so, the witness must be a salesman of his views; he must be persuasive—and thus he engages in advocacy.

This does not mean that he must or does sell his opinion to the highest bidder; nor does it mean that his testimony will vary according to the wishes of the side for whom he is asked to testify. His opinion should be his—not that of his client nor employer. His opinion should be his honest opinion, well supported by facts upon which he bases his conclusion. If he cannot reconcile his views with those of the client employing him, and unless he can give his opinion as it is, he should not testify.

The expert witness is an advocate, and he cannot be otherwise if he wants his auditors to believe him and be convinced of the soundness of his opinions. Not only must he support his opinion upon sound and reasonable premises, but he must know how to present his views in a direct and convincing fashion. He should be an expert in the art of persuasion as well as skilled in the particular field he has chosen as his business.

Realtors are frequently called upon to give testimony concerning real estate. Generally, such testimony relates to values of properties. Proceedings for the condemnation of property under the power of eminent domain require the fixing of values for property taken or the assess-

ment of damages to the residue.

In most proceedings where the Realtor is called upon to testify as an expert, he must cooperate with a lawyer who is conducting the proceedings for one or the other side. This article is written for the benefit of such experts in an attempt to interpret "The Expert Witness from the Lawyer's Point of View." In order to do this, I shall first state some of the "do's" and then express a few of the "do not's."

DO'S FOR THE EXPERT WITNESS

1. Prepare thoroughly. This is of first importance. No expert can afford to take the witness stand without carefully studying the property concerning which he must give his testimony. Nothing is more disconcerting to the lawyer offering an expert as his witness than to find him superficial in his knowledge of the property under consideration. Not only should the expert view the property, but he should view it critically, making notes of particular points which may be important to his appraisal. He should know the exact dimensions of the tract of land, the area, the distance from near-by streets, topographical features, and like data. If buildings are situated upon the land, a plot plan should be prepared showing the location of the structures. Detailed information should be obtained about the type of construction, materials used, layout of floors and rooms, and structural features and condition. It is important to secure information as to the date of construction and the history of its operation. Income properties should be studied not only from a reproduction cost basis but also from an income-producing standpoint, and, in order to check conclusions, the appraiser should obtain, if possible, actual operating figures.

A thoroughly prepared witness is the joy of his lawyer's heart—and the dismay of his opponents. There is no substitute for hard work in preparing to give testimony. The lawyer cross-examining a thoroughly prepared expert will soon find the futility of attempting to break down his testimony. So the first *"Do"* is: *Do prepare.*

2. Reach a sound conclusion. A conclusion which can be soundly supported is next in importance for the expert. Real property valuation is at best an inexact science. There is no way yet devised of accurately measuring the value of land or the buildings thereon. Two appraisers working independently, using the same data, will usually reach different valuations. A variance of 10 per cent either way is not unusual for the best appraisers. In testifying, the expert must not only give his opinion as to the value, but he must be prepared upon cross-examination to justify his opinion forcefully, logically, and convincingly. If he testifies that a house has a reproduction cost value of $10,000, is ten years old, and now has a value of $7,000, he should be able to explain why he ascribes this sum as representing today's value. If he testifies that a property in a retail commercial location is worth $10,000 a foot and that he predicates his value upon transactions in the neighborhood, he must be prepared, upon cross-examination, to give detailed figures upon the transactions to which he refers, and should these transactions evidence only $5,000 a foot, the discrepancy between his $10,000 figure and the transaction price must be explained logically. Therefore, the second *"Do"* is: *Support your conclusions by facts and sound reasoning.*

3. Cooperate with the lawyer employing you as an expert. If I were an expert called to testify upon the value of a property, I should surprise counsel by:

A. *Preparing my opinion in writing*—not a mere letter but a carefully prepared appraisal report showing a plot plan of the property with dimensions, buildings spotted and measurements shown, a description of the property, its geography, topography, location in relation to surrounding buildings, streets, parks, etc.; in brief, a complete report setting forth the factual data and material relating to the property, followed by basic transaction information such as sales, leases, traffic, neighborhood characteristics, and the like upon which my opinion of value is predicated. It would not be amiss to incorporate my reasoning in arriving at the

valuation proposed.

B. *Furnishing with my appraisal report a statement setting forth my qualifications as a witness.* If I had held important offices in my local Real Estate Board, had served on its Valuation or Appraisal Committees, or were a member of the American Institute of Real Estate Appraisers, I should so state. All such information is most helpful to the lawyer in preparing to present his witness in the hearing and tends to instill confidence in the lawyer of the capacity and ability of the expert. Furthermore, qualifications well stated with a becoming modesty go a long way in convincing a judge or jury of the competency of the expert.

C. *Volunteering to consult with counsel as to the manner of presenting the testimony.* Any lawyer properly preparing a case involving expert testimony must know to what his witnesses are going to testify before putting them on the stand. Frequently the lawyer is inexperienced in the particular field familiar to the expert. He may not know terminology or procedural technique. If he is a wise lawyer, he will admit frankly his ignorance, but, whether he does or does not, as a witness called upon to present technical testimony, you must see to it that the lawyer clearly understands your report and approves of your proposed testimony. You can then tactfully suggest to him the important points to bring out which will lay the foundation for your opinion. In fact, the more skilled witnesses frequently outline a scheme for direct examination and rebuttal testimony. Not always will counsel agree to follow exactly your outline, but such a service cannot be otherwise than helpful to and appreciated by him.

When on the stand, remember that you are engaging with your lawyer in a game—with the goal the presentation of your opinion in such a fashion that the judge or jury will be convinced that the views expressed by you are correct and sound. The team consists of the witness and the lawyer. A false move, a careless question, or a hasty reply may utterly destroy the value of your testimony and lose the game.

The third *"Do"* is: *Cooperate with counsel representing the party in whose interest you are testifying.*

4. *Present your evidence as simply as possible.* When on the stand as a witness, the presentation of your evidence in as simple and direct a manner as possible is of great importance. Try to use one-syllable words. If one-syllable words will not do, reluctantly select two-syllable words, and more reluctantly and very sparingly select polysyllables. This is hard for a technical witness to do, but remember that you are always trying to pilot the jurors through a tortuous channel of reasoning utterly unfamiliar to them.

Suppose you testify that a parcel of retail business property has a unit foot value of $1,000. Probably not one on the jury knows what a unit foot means. In fact, a unit foot in one locality means a tract one foot wide by 100 feet deep, while in another a unit may mean a tract one foot by 125 feet or one foot by 150 feet. It is easy to state that your computations are based upon a theoretical unit of measurement known as the unit foot and then to state briefly what the unit foot is.

If you use the term "residual value," explain it to the "dumb" jurymen. If you have observations about "summation appraisals," tell your mystified listeners what you mean by the term. Imagine yourself as one of the jury trying to understand an electrical engineer's testimony in terms of "kilowatt hours," "ohms," "resistance coils," "amperes," and "rheostats." Confusion and fatigue, if not indifference and disgust, would result from your attempts to follow such testimony.

The next *"Do"* is: *Talk so that the most inexperienced juror can understand you,* and do not assume that any juror has high school intelligence. If you succeed in explaining a technical subject in a nontechnical way, you are a star witness.

5. *Direct your answers to the jury* if you are testifying before one. If you are a witness before a judge without jury, talk to the judge. The lawyer should coach you upon the type of case in which you are to testify and should tell you whether the judge or a jury is trying the facts. All actors are taught to speak their lines to the audience, and you are an actor in the case. During your testimony, you are the star performer. Your testimony is valueless if it cannot be heard or understood. It is unconvincing if it is not directed to the persons whom you are trying to convince. Speak deliberately, enunciate clearly, and

testify with enough voice so that the juror in the last seat can hear you. A firm, clear, and steady voice in itself carries conviction and emphasizes opinion.

SOME DO NOT'S FOR EXPERTS

1. Do not volunteer a statement in your testimony unless you are sure, after a discussion with counsel calling you as a witness, that such a statement supports his case. Frequently, a very good witness inadvertently ruins his testimony by a slip of the tongue. He says too much. He responds too well to the question of the lawyer. Generally, it is a good policy for a witness to give his answer in as few words and as simply as possible. Leave it to the examining counsel to frame questions to develop your testimony as he wants it and in the order and manner he desires. He is the coach of the team and calls the plays. If he wants an end run, give him that play. It is his fault if he loses the game by failing to develop your testimony to the fullest extent.

Furthermore, a volunteered statement frequently so modifies the answer given that confusion is created in the minds of the jurors which cannot be easily overcome; or, you may tip off the opposing lawyer to a line of inquiry which, adroitly used in cross-examination, may practically nullify the effect of what you have said before.

2. Do not guess. If you do not know the answer to a question, say: "I do not know," or "I cannot answer that question," or "My study has not developed an answer because my attention was not directed to that point." Nine times out of ten when a witness is guessing, the cross-examiner will discover it and snap a series of questions which will make the expert look silly. No lawyer wants his witnesses to engage in guessing contests while on the stand.

3. Do not give an answer until and unless you understand the question asked. Use common horse sense—but how few experts really apply this simple principle! It is a familiar trick for an experienced trial lawyer in cross-examination to get a witness to do some figuring while on the stand and, while he is so engaged, to propound a question to trap the expert into an answer which is subject to interpretation adverse or contradictory to some statement previously made. Much excellent testimony has been spoiled in this fashion and many experts roundly "cussed" for being caught napping off second base in such a fashion. If the question asked is poorly framed and you do not get its full import, ask the lawyer to repeat the inquiry.

4. Never let your attention lag or be distracted while you are testifying. Concentrate on the job of testifying to the utter exclusion of everything else. Your wits are never sharp enough to match the wits of an examining lawyer seeking on cross-examination to upset your testimony unless you give direct attention. Do not wander to the golf course, to your garden, or try to sell a house at the same time you are trying to sell your opinion on the witness stand.

5. Do not try to appear to know too much. A "too smart" a witness irritates the jurors and the judge. The impression is left, "No one is as smart as that witness thinks he is." If you are smart and know it, forget it at least while on the stand. If you are conceited and vain, do not bring these qualities with you—do not parade them in the court room.

6. Do not let the cross-examiner get you riled, irritated, or angry. That is what he wants. A baseball pitcher lasts less than an inning when the sideline coaches or the fans "get his goat." Anger and thinking do not sleep well together. If the cross-examiner bullies you, let him do so. All he will accomplish is to excite the sympathy of the jurors toward the poor witness. It is really a compliment if the lawyer has to resort to such tactics to discredit your testimony.

7. Do not shout your answers and likewise do not whisper them. Speak so that the juror farthest away can hear. Do not

bother about the audience of spectators. The show is for the judge and the jury.

Court rooms are usually designed with the chair for the witness between the jury and the judge so that his testimony can be easily heard by both. Control your voice and its volume to that end.

8. *Do not testify too rapidly.* If you do so, you force the slow-witted juror to jump around mentally trying to follow your thought. If he cannot keep up, he feels inferior and commences to dislike you, and your testimony is commensurately weakened.

9. *Do not get "buck fever" while on the stand.* An expert is supposed to know more about the subject upon which he is testifying than the judge, the jury, or the lawyers; otherwise, why would he be called to testify? If you really know your subject, are prepared, and have an opinion which you expect to state honestly, you have no reason to be nervous about it. Rest in the knowledge that you probably know more about your specialty than any other person in the room and that "you are telling them!" This is confidence, and it goes along with all good experts.

The expert witness is an advocate in the sense that he must sell his views and convince the judge and jury that his opinion is correct and the most reliable. In order to do this there is no substitute for thorough and complete preparation. The lawyer blesses the prepared witness. The manner of presentation of the expert's testimony is next in importance, but the well-prepared witness, thoroughly steeped in his subject, soon develops a style in testifying which carries conviction and inspires confidence to his hearers.

Ranch Appraising

By TRUE D. MORSE, *A.F.M., A.R.A.*

RURAL appraising as a science is of comparatively recent inception. The development has been rapid, with an encouraging show of agreement on basic theory and a favorable tendency toward the adoption of a distinctive nomenclature. Statements concerning a rapidly developing science are apt to be somewhat immature and soon out of date. Yet even at this risk and with the knowledge that there probably will be many subsequent corrections by the author, as well as others, it seems appropriate to discuss what appear to be fundamental principles which can be relied upon in reaching sound appraisal values.

This discussion of ranch appraising is not complete or exhaustive. Attention is directed only to a few principles of broad implication which appear to be basic in theory and which are proving sound in practice.

Ranching is primarily a business. Unlike many farm establishments, most ranches are purely economic in concept with little, if any, consideration given to the home and aesthetic features that are in many cases strongly coupled with farming to make it "a mode of living" as well as a business.

If the above premise is true, then ranch appraising must involve more than normal emphasis on income capitalization as the primary approach to value. In fact, the accurately determined income properly capitalized is the value of many ranches.

RANGE CARRYING CAPACITY

Of first importance is the accurate determination of the carrying capacity of the range. This is unquestionably the most important feature in southern ranch areas where grazing is available all year and little, if any, winter feeding is practiced. In northern regions the range carrying capacity is equally important, but the availability of winter feed in most cases so controls the practical use of summer range that this item is of major importance and in some cases becomes dominant in controlling values.

Range carrying capacity is expressed by the number of acres required to carry an animal unit during the normal grazing season. For instance, the average in the Edwards Plateau Area of southwest Texas is twelve to fifteen acres per animal unit. In some areas across the Pecos River to the west it drops as low as fifty acres per animal unit. The same extreme ranges are found in northern areas. The Nebraska Sandhills require around ten to twelve acres per animal unit with less than a six months' effective grazing season, while areas in Montana and Wyoming have an average requirement of fifteen to thirty acres per animal unit.

An animal unit is a common denominator for all kinds of livestock and is the equivalent of a mature cow or horse. The following schedule applicable to Texas is illustrative:

		Animal Units
1	Head of cattle or horses over two years of age	1
2	One- to two-year old cattle or horses	1
4	Calves or colts under one year	1
7	Sheep, mature	1
9	Yearling ewes	1
13	Lambs	1
12	Goats and kids	1
4	Sows	1
5	Other hogs	1
8	Pigs	1

Thus, when figures are given showing the number of acres required to properly graze an animal unit and the total pasture acreage of a ranch is known, it is possible to calculate quickly the number of head of the various adapted kinds of livestock that can be grazed. A ranch with 6,000 acres of grazing land with a carrying capacity of

one animal unit for each twelve acres will graze 500 cows or 3,500 mature sheep.

SURFACE ACRES VS. FORAGE ACRES

Ranch appraisers are concerned with both surface acres and forage acres. The latter is an expression of the productive capacity of the former and usually gives the clearest picture of the effectiveness of the grazing land of a ranch. A large surface acreage may be of little significance and, in fact, may be detrimental if it provides only a small number of forage acres. A surface acre with a perfect stand of blue grass is equivalent to 0.9 of a forage acre (after allowing for the maintenance of the plants) and thus is 90 per cent effective from a grazing point of view, whereas some western ranch lands will require fifty or more surface acres to produce 0.9 forage acres of palatable grazing. Many large ranches, when expressed in terms of forage acres, are very small in grazing capacity as compared with the total surface acreage.

The United States Forest Service has for many years been developing a technical method of range rating and now, with the cooperation of various state agricultural colleges, has made available palatability figures which enable the determination of the kinds of stock adapted to a range and the number of the various classes of livestock that can be grazed on a given area during a normal grazing season. The same technique is applicable to ranch appraising, and a properly determined carrying capacity, when reflected in land valuation figures, greatly fortifies the position of any ranch appraiser.

The method of calculation used in all range surveys in arriving at a carrying capacity rating is: *density* times *composition* times *palatability*. This gives a forage acre factor which, when used as a percentage figure, can be multiplied by the total surface acres to obtain the total forage acres. The total carrying capacity of the range is acquired by dividing the number of forage acres by the forage acreage requirements per animal unit for the grazing season. The manner in which these computations can be worked into an appraisal form is illustrated by the accompanying vegetation table. The computations are not complicated and can be rather quickly completed after the inspection of a property. The table has been filled in with illustrative data taken from an actual appraisal of a ranch in western Texas.

VEGETATION TABLE

ACRES	RANGE TYPES		FORAGE PLANTS			Factors (5) (3)x(4)	Type Palatability (6)	Forage Factor (7) (2)x(6)	Forage Acres (1)x(7)
(1)	Name	Density (2)	Name	Composition (3)	Palatability (4)				
4500	Mesquite Grama Grass	55	1 Curley Mesquite	40	75	3000	62	34	1530
			2 Grama, Blue and Six Weeks	30	60	1800			
			3 Needle Grass	5	10	50			
			4 Tallow Weed	10	60	600			
			5 Filaree	5	60	300			
			6 Mesquite Trees	5	40	200			
			7 Live Oak	5	60	300			
4782	Oak and Cedar (Rough Stony Land)	40	1 Curley Mesquite	25	75	1875	62	25	1195
			2 Grama, Blue and Six Weeks	30	60	1800			
			3 Tallow Weed	10	60	600			
			4 Filaree	10	60	600			
			5 Live Oak	15	60	900			
			6 Shin Oak	10	40	400			
9282	TOTAL SURFACE ACRES					TOTAL FORAGE ACRES			2725

The step-by-step entries and computations included in the vegetation table are briefly explained as follows:

The acreage in the first column is the surface acres occupied by each of the range types. In the above case there was no land in cultivation, so the entire ranch acreage was devoted to grazing. The ranch was far enough south and the vegetation of such character that twelve months' grazing was practiced.

The range types in this case were designated by the local names. For best results, organizations engaged in extensive ranch appraising should adopt definite range type names which are carefully defined and which will always be used by the appraisers to designate the same character of range.

Density in this case is the density for the range type. As used in the vegetation table, density is expressed as a percentage, in which case 100 would be perfect.

The next two columns are devoted to showing the composition of the range types by naming the principal forage plants and entering opposite each an estimate of the percentage of grazing that each contributes. The total of the composition percentages must always equal 100.

Palatability figures for each of the forage plants are entered in column (4).

The factor in column (5) in the vegetation table is obtained by multiplying the palatability figures in column (4) by the composition figures in column (3).

The type palatability in column (6) is the total of the factors in column (5) divided by 100, or pointed off two places.

The forage factor in column (7) is then derived by multiplying the type palatability figure by the type density in column (2). It is this forage acre factor, which, when used as a percentage figure, expresses the amount of each surface acre which is effective from a forage standpoint.

The forage acres in the last column are determined by multiplying the forage acre factor by the surface acres.

In Texas in the area in which this appraisal was made, the state and governmental authorities estimate that four forage acres are required to graze an animal unit for twelve months. The proper carrying capacity of this ranch was determined, therefore, by dividing the total forage acres, 2,725, by four, a total of 681 animal units. The division of the total surface acres by this latter figure gave the range carrying capacity, which in this case was one animal unit for each fourteen acres.

In Montana it is estimated that 0.8 forage acres are required to graze an animal unit one month. To get the requirement for a grazing season, the monthly requirement is multiplied by the number of months in a normal grazing season. Thus, the seasonal requirement per animal unit for a six-months' season would be 4.8 forage acres. Otherwise, the computations are the same as shown in the Texas illustration.

Montana studies show that livestock can be expected to pay a return on a value of $5.50 per forage acre. "This derived figure of $5.50 as the standard value of a forage acre includes the value of improvements in fences, water development, and buildings." [1]

The forage acre requirement concept has been carried even further and applied to the acreage from which hay and other winter feed are produced. An acre of Montana hay land producing one ton of hay based upon a 500-pound per month requirement for an animal unit gives 3.2 forage acres per surface acre. At $5.50 per forage acre, this is an indicated value of $17.60 per acre for hay land of this annual yield. By this method the year-round capacity of any ranch can be determined by much the same process regardless of the proportionate length of the grazing season and the period of winter feeding. This is mentioned without further discussion because of the limitations of this article.

The working out and complete developing of the vegetation table and the deter-

[1] Montana Agricultural Experiment Station.

mining of the range carrying capacity by the method explained here have considerable merit beyond the value derived from the end product, i.e., range rating figure of eleven acres per animal unit. They incorporate into the appraisal such facts as the following:

The range types and the amount of acreage occupied by each.

A list of the principal forage plants by range types.

The proportion of grazing contributed by each forage plant and range type.

A showing of the relative palatability of the usable vegetation.

These are all essential parts of any complete ranch appraisal. The tabulation should be supported, of course, by a complete discussion which lays emphasis upon the most pertinent facts revealed by the table.

The range carrying capacity thus determined is an effective combination of step-by-step opinions or estimates on the part of the appraiser and scientific data developed by the agricultural colleges and the United States Department of Agriculture. The appraiser's opinions and estimates include:

The acreage occupied by each range type.

The proper designation of the range types.

The density of each range type. (This is one of the most vital figures in the calculation.)

The identification and listing of all of the principal forage plants.

An estimate of the amount of grazing or browse contributed by each.

The scientific figures furnished by the state and governmental institutions include:

Palatability figures.

Forage acre requirements.

OTHER RANGE RATINGS

In keeping with the principle that as many checks as possible should be incorporated into the appraisal process and the supporting data which should accompany every calculation of value, a number of other range carrying capacity figures should be included in the appraisal report. The amount of the various kinds of livestock carried on the range for the last five years or more should be determined. By converting these into animal unit figures, an actual experience figure can be shown, i.e., the average number of acres available per animal unit for the period. It is proper to accompany this figure with an expression of opinion as to whether the property has been over- or under-grazed and an explanation if other than normal grazing seasons are included within the period.

There is available, at least through calculations from census data, information on the average pasture acres for each animal unit reported for the country. State statistics extending over a consecutive period of years are sometimes more accurate as to county averages. In some cases, area estimates of range carrying capacities by state agencies, Federal agencies, and others are valuable checks. Under the Government Conservation Program of recent years, range ratings have been made on some of the ranches participating in the program. Where these figures are available and it is known that they have been made by competent individuals, they are desirable checks for the appraiser.

DENSITY, COMPOSITION, AND PALATABILITY

The three cardinal factors entering into range ratings deserve further elaboration.

Density is an estimate of the proportion of the ground surface actually covered by herbaceous or shrubby vegetation within reach of stock, expressed by a percentage figure. A density of 100 would indicate that the vegetation completely covers the ground.

"In estimating density the spread of the vegetation above the ground must be carefully considered. The density of more or less upright weeds should be based on the amount of ground that appears covered when the vegetation is viewed from directly above. In estimating the density of spreading weeds or browse or open clumps of grass this forage should be pressed together or raised at an angle so that all of the normal interstices between the leaves are completely filled without

compressing or unduly crowding the vegetation. The forage is then so compacted that it will represent a 10/10 density. All density should be judged on the basis of growth during a normal year. The density of browse should be determined by the portion of the ground covered by that part of the browse that is accessible to stock. This may exclude from the estimate the interior of dense clumps. Any oak or other brush that forms an upper story beyond the reach of stock does not enter into the density estimate. Where a double story of vegetation exists, such as browse over grass, judge the density of each story separately. Both stories are included in the density estimates. Care must be exercised that the density estimate represents a true average for the type as a whole. Especially is this important in composite types which cannot be divided into separate types."[2]

Composition of the range types is the forage plants which make up the available grazing and the percentage of grazing contributed by each. The examiner formulates his estimate of the composition after he has inspected the total type area. Preferably, he should complete his estimate while he is still on a representative part of the ranch covered by the range type under consideration. In the appraisal from which the accompanying illustration was taken, only the principal forage plants were listed. Regardless of the extent of detail used in listing the forage plants included in each range type, the sum of the percentages must always total 100.

[2]Inter-agency Range Survey Committee Report, approved by the United States Forest Service, Resettlement Administration, Soil Conservation Service, Division of Grazing, and Bureau of Indian Affairs.

"Palatability, as used in range surveys, is the per cent of the total current year's growth, within reach of stock, to which a species is grazed when the range unit is properly utilized under the best practical range management. The class of stock, the composition of the vegetation, and the proper time of using the range as a whole, etc., must be considered when rating the palatability of individual species. This percentage should not be in excess of what may be grazed under proper use and still allow the plant to maintain its stand and vigor, year after year." [2]

Palatability tables have been prepared by various state agricultural colleges cooperating with the United States Department of Agriculture. The palatabilities are usually shown separately for cattle and horses and sheep and goats. The palatability figure used by the appraiser should in each case be determined by the kind of livestock which will be grazed on the ranch by a typical operator.

Blue grass is commonly referred to as a standard for extreme palatability. A cow would take 100 per cent of the growth within a blue grass pasture if the pasture were stocked heavily enough, but, of course, the plants would die if no top growth were permitted. Therefore, blue grass is rated as 90 per cent palatable, which allows a margin to take care of the plant. This explains why it was stated in the first part of this article that a perfect stand of blue grass is equivalent to only 0.9 of a forage acre. The following figures, which have been selected from the plant palatability list for Texas (west of the one-hundredth meridian), are illustrative of the way these lists are made up and of the extremes which are encountered.

PLANT PALATABILITY LIST—TEXAS

(Illustrative entries; there is a total of 126 entries in the complete list.)

Common Name	Scientific Name	Palatability: Cattle and Horses	Palatability: Sheep and Goats
Grasses and Grasslike Plants:			
Bermuda Grass	Cynoden Dactylon	90	80
Buffalo Grass	Buchloe Dactyloides	85	85
Bull Grass	Muhlenbergia Emersleyi	30	0
Grama, Blue	Bouteloua Gracilis	85	60
Grama, side-oats	Bouteloua Curtipendula	75	30
Needle Grass	Aristida (species of)	20	10
Rescue Grass	Bromus Catharicus	60	60
Tobosa Grass	Hilaria Mutica	40	20
Weeds:			
Broomweed or Snakeweed (annual)	Gutierrezia (species of)	0	40
Blue Weed	Helianthus Ciliaris	40	0
Filaree	Erodium Cicutarium	60	60
Ragweed	Parthenium (species of)	10	10
Tallow weed	Plantago (species of) and Amblyolepis Setigera	60	60
Trees and Shrubs:			
Catclaw	Acacia and Mimosa (species of)	10	10
Guajillo	Acacia Berlandieri	60	60
Ill-scented sumac	Rhus Trilobata	60	60
Juniper and cedar	Juniperus (species of)	0	0
Lamb brush	Calliandra Eriophylla	0	25
Mesquite	Prosopis Chilensis	40	40
Oak: live oak	Quercus (species of)	60	60
shin oak	Quercus (species of)	40	40
other oaks	Quercus (species of)	20	20
Sotol	Dasylirion (species of)	20	20

Much research remains to be done before the palatability tables become scientifically exact, but they are a distinct improvement over the varied ideas of the relative value of grazing and browse plants which are held even by well-informed ranchmen.

HAZARDS

It would be inappropriate to leave the consideration of range vegetation without at least a brief word concerning poisonous plants. They are among the major ranching hazards, but the intensity of the problem varies greatly by areas.

The continued over-grazing, to which much of the range is constantly subjected, is having a marked influence on the flora. Valuable plants in some cases are disappearing, and worthless or even poisonous plants are increasing in numbers or encroaching on areas where they have not been found previously. The seriousness of the problem is well illustrated by the spread of the bitterweed through west Texas. Valuable sheep ranches face abandonment for sheep grazing purposes or expensive supplemental feeding each year because of the appearance of this weed in large numbers. Poisonous weeds may take their toll in many ways even though actual death losses are prevented. Supplemental feeding, seasonal grazing, badly conditioned stock, and costs for veterinary and medicine are some of the difficulties arising from toxic vegetation in addition to death losses.

Climate or the weather accounts for the most serious hazards in many ranch regions. Witness the devastating drouths that have visited all parts of the Great Plains during one or more of the past five years. The other extremes of heavy snows, blizzards, and intense cold are also hazards of major importance.

The appraiser must not only determine the presence and seriousness of existing hazards but the probability of future problems. The foregoing is a very meager discussion of a few of the many ranching hazards, but these indicate the extent to which land values may be affected or in extreme cases eliminated by a hazard or hazards of unusual severity.

WINTER AND DROUTH FEED

Most ranching enterprises are based upon a production type of industry with large breeding herds. Typical operations require feed for wintering much of the livestock required for the summer range except where there is full twelve months' grazing. Increasing consideration is also being given to the feed needed for supplementing pastures during drouths and other periods of meager grazing.

The productive capacity of all hay and crop land must be carefully determined and dealt with fully in the appraisal report. The method of treatment is practically the same as in farm appraisals where crops are major items. There is, however, one fundamental difference. It is highly important in most cases that a ranch be balanced, i.e., have the capacity to produce all feed needed for efficient operation. Distances are great in ranching regions, and bulky feeds, like hay and forage, are difficult and expensive to transport. Likewise, it is usually unsatisfactory to depend on moving herds to areas of excess feed production for wintering, although this is a standard practice within limited areas that surround some sizable irrigation projects.

Complete operating agricultural units usually have strong value positions as compared with unbalanced, incomplete, and dependent acreages. This is especially true in the case of ranches.

SOILS

No mention has thus far been made of soils, as they have been emphasized in former articles. "An accurate appraisal cannot be made without a correct determination of the soils. They must be accurately described and properly evaluated." [3] "Soils are basic, and even though the land may be used primarily for hay and pasture, the soil types should be mapped and the acreage of each determined." [4]

It is just as essential to map and determine soil acreages in ranch appraising as in the appraisal of farms. Vegetation types to a considerable degree follow soil types, and soils in numerous other ways are constantly affecting ranch appraisal values. Some soils are not adapted to grazing sheep and goats because sharp-hoofed tramping may cut out the sod.

Erosion is responsive to certain soil textures, organic content, and other soil qualities. Even some poisonous plants, such as the Astragalus, are toxic because of selenium and other elements obtained from the soil and are distinctly less harmful when growing on soils with little or none of these elements present.

An exhaustive study of the soils should be made by the appraiser in every case and all the essential facts written into the appraisal report.

PLATS

One important reason for complete detailed plats is that they tend to insure a thorough inspection of a property. The appraiser is human, and the temptation to cut corners, especially on ranches, is often very great. Most men prefer riding the ranch roads by car and are loath to spend the days in the saddle, which are often necessary for a complete and adequate inspection. Riding the rocky hilltops, gulches, and other inaccessible portions of a range by horseback frequently reveals important facts that have a definite bearing on values. The impression one obtains by viewing a ranch from the cushioned seat of a car driven over gentle valley roads is frequently altered or in some cases

[3] "Estimating the Value of Farm Lands," by True D. Morse, April, 1936, issue of the *Journal*, p. 159.

[4] "The Data Program for the Appraisal of Dairy Farms," by True D. Morse, January, 1937, issue of the *Journal*, p. 10.

completely reversed after several days spent in covering the same ranch by horseback—on the hard seat of a saddle that has a way of bringing one very close to facts and practical realities, especially toward the close of a long ranch day.

Accurate detail maps cannot be made without fully viewing all parts of a property, and accurate values cannot be determined without such a detail inspection. Dependable values of physical property are not obtained by hurried, incomplete inspections.

A plat is the visual method of presenting the factual data of an appraisal.[5] Experience shows that as such it more quickly and impressively conveys information than most parts of the appraisal report. Plats, therefore, deserve to be created with the skill of an engineer and the ingenuity of an artist.

Ranch appraisal plats should portray such important information as:

Shape and compactness of the tract.
Dominance or subjection to alienated land, if any.
Location, accessibility, and dependability of water supplies.
Kind of water supply and equipment, such as windmills, reservoir, and pipelines.
Location and character of fences.
Size and number of pastures.
Number and location of traps and corrals.
Location of buildings.
Topography and topographic barriers, if any.
Classes of land.
Soil types (usually best presented by a separate plat).
Vegetation areas, including timber and brush.
Erosion.
Roads, railroads, drainage and irrigation ditches, streams, and numerous other features.

VALUE CALCULATIONS

After a build-up, using the type of data and the type of analysis which have in part been suggested, the ranch value is determined by the same method used for farm appraisals.[6] Typical rentals are usually figured to get the gross income. From this, fixed and other ownership expenses are deducted, including all those that an owner must bear in order to secure the income with which the property is credited.

Rentals are used as a matter of simplification and accuracy. More than normal care must be employed in most ranch territories to be certain that the rent rates are typical and applicable to the type of ranch involved. They must also be averages for a representative period of years. In the event there is any doubt as to the accuracy of the net income figure when calculated in this manner, the income statement should also be figured upon the basis of owner operation.

In fact, the large value of many ranches justifies the precautionary measure of figuring net income by both methods. One is a valuable check against the other.

The net income is, of course, capitalized to obtain the earning or income value of the ranch. As stated in the beginning, this is the value of many ranches and certainly is the dominant value of most ranches. This fact, however, does not relieve the appraiser of the necessity of further subjecting the property to the comparative approach, by which the income capitalization value is adjusted if necessary to reach the final value.

The comparisons should be separate considerations of factors which at times affect value in ways other than by influencing income, such as:

Location.
Community
Physical features.
Hazards and nuisances.
Natural resources.
Home and aesthetic features, such as:
    Dwelling and landscaping.
    Educational and religious facilities.
    Scenic and recreational features.

Ranch values, therefore, are calculated by the basic method applicable to all real estate adapted to agricultural enterprises. The fundamental principles are the same even though the data program may vary and the emphasis be placed on different items. In ranch appraising the range carrying capacity comes in for major consideration as dominant in controlling earn-

[5] "The Data Program for the Appraisal of Dairy Farms," by True D. Morse, January, 1937, issue of the *Journal*.
[6] See "Estimating the Value of Farm Lands," by True D. Morse, April, 1936, issue of the *Journal*.

ings. Every effort is justified, therefore, in studying the range vegetation and in determining the amount and kind of stock that can be properly carried by the same. No ranch can maintain permanently an economic value that is not supported by the carrying capacity.

Ranch appraising is not a simple process. It requires a background of extensive education and years of experience. The work is complicated by the fact that as a whole the ranching regions of this country are among the newer, more recently developed territories. Any new agricultural region embodies uncertainties that only the lapse of time can eliminate. The more difficult the task, the greater the challenge! Much encouraging progress has been made by a number of agencies in the development of methods and factors which can and should be used in ranch appraising. It remains for ranch appraisers to bring these together and to work them into the valuation process.

Our Real Estate Tax Problem

By IVAN A. THORSON, M. A. I.

THE problem is to secure the much needed tax relief for real estate. How to attain this objective involves many considerations and the overcoming of many difficulties. In the first place, the public is very apathetic toward most social and economic problems. The average citizen does not consider them as his individual concern. Even toward a subject like taxes, which affects him so vitally, his attitude paradoxically is one of belligerency and hopeless resignation.

As the president of one of our service clubs recently stated: "I regard taxes as something not to be understood, but to pay and cuss about." It is, therefore, apparent that one of our greatest difficulties is to make the property-owning taxpayer himself realize the importance of the present dangerous tax situation. It is the old idea that government is the affair of those who are elected to run it, although the taxpayer probably had never seen nor heard of some of the politicians whom he voted into office until he saw their names on the ballot—a state of affairs much to the liking of the politicians.

Much of the mental fog surrounding the land tax question may be traced to the blind following of outmoded classical traditions. We are a nation of "authority" worshipers; quoting "authorities" is our convenient substitute for thinking. So we embalm, as irrevocable and everlasting truths, theories and "doctrines" which, so far as applicability to present-day conditions are concerned, have proved themselves impractical absurdities. Some of us have clung to philosophies which had their inception when farm land was practically the only type of land in general use and when life was comparatively simple. Urban life has brought new problems unknown to Malthus, Adam Smith, Ricardo, Mill, and others of whose philosophies and economic theories many of us have been worshipful and unthinking followers.

There is nothing which affects real estate values so vitally as taxes, and there is no tax field which is so much in need of expert and understanding handling as the local taxation field—which has come to be virtually synonymous with the real estate tax field.

THE GREAT NEED FOR SKILLED EVALUATORS IN THE LAND TAX FIELD

The chief cause for the land tax mess in which we find ourselves to-day is obviously the almost complete lack of understanding as to what constitutes *"land values"* on the part of our academic tax theorists who are largely responsible for the imposition and administering of our present form of land taxation. Knowledge of land valuation is something which cannot be acquired through mere armchair methods. The trained and skilled real estate appraiser alone can furnish the answer to what constitutes proper real estate values for taxation as well as for other purposes. Proper land valuation is no doubt the most momentous problem confronting us today.

A JUSTIFIED DEMAND

We often hear the remark, "Isn't this demand for readjustment of the real estate tax just another outburst on the part of some particular group of taxpayers who are determined to shift their legitimate tax burden on to some other taxpaying group?"

It is not strange that such a suggestion should be advanced in light of the continuous efforts which are made by one group or another to get rid of its own particular taxes, with no regard as to whose shoulders their taxes may be shifted.

There seems, however, to be no difference of opinion among informed persons

as to the crying injustice of the present property tax and the irrational character of its administration.

Dr. Seligman, of Columbia University, despairingly exclaims:

> "The general property tax, as actually administered, is one of the worst taxes known in the civilized world. It is so flagrantly inequitable that its retention can be explained only through ignorance or inertia."—(From *Essay on Taxation.*)

Dr. Fagan, of Stanford University, says:

> "Our taxation system . . . has no reference to the ability of the individual to pay, and this is absurd. We must think more of the ability to pay and less of the inability to resist when enacting tax laws."—(In an address to Stanford Alumni.)

Lefevre in *The Saturday Evening Post* states:

> "In common justice, it may be said that real estate pays proportionately three times as much as any other form of wealth."

ACTUAL EXAMPLES CITED

It is not necessary to quote the observation of outstanding tax students to learn of the true situation. Every one of us can find ample evidence in his own locality of the "flagrantly inequitable" character of the so-called "*ad valorem*" tax on property.

Less than four blocks from the "hot spot" in one of California's largest cities there is a property which for years has been taxed at more than $6,000 annually, the net income from which has never exceeded $2,500. The lot in this case would be worth more were the building removed, but it would cost $30,000 to tear down the building, it being constructed of steel and concrete. Nevertheless, this building is taxed at its full replacement cost, although it has become an actual liability. There are, furthermore, thousands of properties in every large city where the tax exceeds the total net income. This means that the tax must be paid from income derived from other sources, and that in turn means that if the owner has no other source of income, he will lose his property.

In brief, the situation is this: Real estate is paying from 45 per cent to 60 per cent of the nation's total tax bill—local, state, and Federal, though receiving less than 20 per cent of the total social income. Locally, an average of 90 per cent of the tax burden falls on real estate. Only "ignorance and inertia" can explain such a tax situation.

While our state laws and constitutional provisions call for a "general property tax," much of the personal property has been exempted by statute, and the remainder of the taxable personalty is, as a rule, absurdly undervalued by tacit approval of assessing officials, leaving real estate to pay practically all local taxes.

Added to this unjust tax burden is the inequitable distribution of the real estate tax load, brought about by the fact that the value of the tax base (real estate) is arrived at by methods long since pronounced unsound and wholly untenable by skilled appraisers—the result: actual liabilities in some cases instead of assets (value), as in the example given above.

A BIT OF HISTORY

What has brought about our present ridiculous real estate tax situation? Up to and for some time after President Jefferson's time, most of our country's wealth came directly from the soil, the principal occupation being farming. Very properly, therefore, the major portion of our taxes was assessed against the farmers, the amount of land owned being roughly a measure of his taxpaying ability. There were few cities of any consequence, the larger American cities of today being little more than trading posts of that time.

As industry and commerce with their concomitants — transportation, storage, and financing—and the professions made great headway, wealth productivity and earning power shifted to these processing, distributing, and professional activities. Real property, it was found, could no longer alone carry the burden of government, and additional sources of revenue had to be found. So a number of new taxes

were invented, such as income, inheritance, sales, etc. But—and note this well—in levying these new taxes, our tax-leviers, either inadvertently or otherwise, failed to exempt real estate and other tangible property from these new taxes, with the result that such property is now subject not only to the old "capital" taxes but also to a number of new taxes. That is, property has continued to pay the old ad valorem tax and, *in addition*, has been forced to assume its full proportionate share of all the new taxes.

BASING TAXES UPON CAPITAL VALUE AN INGENIOUS DEVICE

A 4 per cent tax ($4.00) on every $100 value seems like a small and reasonable item, but when it is considered that the average net income, based upon the total taxable capital value of all real estate, is less than 6 per cent and therefore that a 4 per cent tax takes 66⅔ per cent of the entire average net income from real estate, the item looms large; and remember that in addition the property owner pays his full proportionate share of all other taxes—local, state, and Federal—while the owners of intangibles pay the latter taxes only, paying practically no local tax. The average property owner often fails to realize that even a 1½ per cent tax on capitalized value is equivalent to a 30 per cent tax on the net income upon a 5 per cent basis and to 25 per cent on the net income upon a 6 per cent basis.

Is there any reason why the income from real estate should carry a tax of more than 25 or 30 per cent, which would be the equivalent to a 1½ per cent tax on its capital value, particularly in view of the fact that this income from real estate is subject to the same income tax as are incomes from other sources?

THE ROOSTER AND THE GOOSE

To clarify the situation to the average taxpayer, we have found it necessary to make a clear distinction between the two classes of taxpayers—the property owners and the non-property owners. We have, therefore, symbolized in cartoon form the two classes as "roosters" and "geese," respectively. Characterizing the property owner as a "goose" has certain implications which, I believe, are more or less justified. Nothing but a "goose" would have tolerated, without appreciable "squawk," the imposition of the enormous tax loads heaped upon the property owner—tax burdens borne by no other tax-paying group. On the other hand, no disparagement is intended by symbolizing the non-property owner as a "rooster." The rooster is a fighting bird which knows how to stand up for his rights. The non-property owner, by keeping himself well advised and through effective organization, has seen to it that his interests have been properly protected. For this we do not blame him.

Just recently the property owners have begun to realize that they can protect themselves only through proper organization. They have learned that it is no longer true that the city home owner or the farmer can live "supremely independent each in his own castle." They have now become cogs in a tremendously complex social machine and are very much interdependent on all other members of society.

TAXES AND HOME OWNERSHIP

To illustrate the inequity of our present land tax system, the story is told of a young Californian who invested his savings in a 6 per cent $1,000 bond of an out-of-state manufacturing concern. The tax on this bond was one-tenth of 1 per cent, or $1.00. He decided to build a home, so he sold his bond and invested his savings in a $1,000 home site, only to find that his tax was then $24 per year; that is, his tax had multiplied twenty-four times, and he had lost a year's interest amounting to $60.

In other words, he was penalized $84 a year for transferring his savings from a foreign investment to an investment in his own state—to an investment which would make him, as a home owner, a more valuable citizen.

We may well ask: "Is this the way to encourage home ownership?"

England and Germany pulled themselves out of the depression in 1932 (when we continued at the bottom) by offering every encouragement to home building. During the past five or six years we have built proportionately only a fraction as many homes as have these two countries.

On the one hand, the Federal Government, through the Home Owners' Loan Corporation, the Federal Housing Administration, and other agencies, has tried to help the home owner, while we have largely nullified this assistance by our "flagrantly inequitable" property tax system.

INDUSTRY SUFFERS SIMILARLY BY UNJUST TAXATION

Industrialists who own their own plants and equipment pay income taxes and all other taxes, just as do owners of intangibles. The latter, however, pays taxes on his net income only and little or nothing on the capital value of such intangibles, while the industrialist is forced to pay an ad valorem tax on the capital value of his plant, on his manufactured products, and often a specific (excise) tax in addition to his income and other taxes.

All of these extra taxes are furthermore levied on the physical properties of the industrialist with little regard to their productivity or net income. Because of high taxes, many industries are lost to communities which otherwise possess outstanding advantages.

ATTEMPTS TO JUSTIFY OUR PRESENT LAND TAX SYSTEM

Many and fanciful are the attempts to rationalize the incongruities of the present land tax system—such as the theory that taxes on land are capitalized into land values and deducted from the sale price so that the greater the tax the lower the cost to the purchaser. Hence, a high tax is a blessing to prospective home owners. Make the tax high enough and we shall have *free* land. This is the heart of Henry George's Single Tax Doctrine. There are many variants of it, but they all hark back to the same source. Only on the assumption that land values when once established remain practically unchanged can such a theory have any meaning. Anything which depends so completely upon human choices and behavior, as do land values, will and does fluctuate with the whims and movements of people, as any experienced land valuator knows.

Sensing that all is not well with some of their old land tax theories, our tax theorists, as will be noted, are catching at straws to justify the absurdities of our property tax. Take, for example, the following reasons given for the disproportionately high taxes on real estate:

1. To protect the property.
2. To protect the community against harm from the taxed properties.

As to the first claim, what protection does a vacant lot require? As to improved property, the owner pays his own fire and other insurance, and no one will run away with his house. As to the second claim, if the tax were levied in proportion to the burden on and harm to society (government), *why then decrease* the tax on the properties as they grow older?

The harm suffered by a community through the presence of a building is certainly not lessened as the building grows older, when its architecture and general appearance become increasingly obsolescent. Old decrepit buildings, which are taxed very little, are more annoying and certainly present greater hazards than new fireproof buildings, which are taxed right up to the limit.

And still another theory suggests, in placing the value on farm land for tax purposes, that fertility should be ignored; that is, all farm lands should be taxed the same regardless of fertility, because "fertility is periodically depleted and has to be replenished by the user." The contention is that the tax should rest on "site value" alone. By such a method, it is alleged, the farmer would be placed on an even footing with his city brother. It is quite evident

that the tax theorist who invented this scheme knew but little about farm lands or the factors which go to make up either farm values or urban "site values."

It will be noted that some of the above mentioned theories have embraced the outmoded "benefits received" taxation theory, evidently repudiating the more modern "organic" theory of "ability to pay."

There has been during the past few years a decided tendency among academic tax students to drift towards Henry George's tax theories. This tendency is plainly evident from the theories referred to here. Proper land valuation is a very difficult performance, requiring years of special training and experience. Evidently a short cut is attempted by substituting academic land value theories for practical first-hand knowledge of the subject. It cannot be done successfully, as is obvious from the tax mess in which we are involved as a result of such procedure.

The so-called *triple taxers* very energetically disclaim being disciples of Henry George or subscribers to a single tax doctrine. However, it was not the singleness of the tax which was the crux of Henry George's tax theory. His tax philosophy should be designated perhaps more properly as a social reform. It should be noted, however, that *triple taxers* are advocating some tax principles which, if carried to their logical conclusion, would eventually socialize land. This would also have been the effect although not the avowed purpose of Henry George's doctrine.

TWO SUGGESTED MEASURES

To remedy the present untenable real estate tax situation, two measures have been proposed by the National Committee on Real Estate Taxation:

1. To equalize the tax load as between real estate and all other forms of wealth. This can best be done by an overall tax rate limitation on real estate.
2. To equalize the tax load as between different properties, so that each property will be taxed upon the same basis. This is accomplished by employing a proper common denominator in the valuation of all real estate—that is, a proper unit of measurement, which obviously is not its cost but is the property's productivity, income, or use value.

The first proposal (Rate Limitation) is embodied in the following resolution:

> "WE PROPOSE in each state a constitutional amendment specifically limiting the total tax on real property for all purposes in any one year to a fixed percentage of the true value."

Nine states have adopted tax rate limitation, with the following results:

1. A reduction in governmental waste.
2. Schools put on a sounder basis.
3. Sizeable property tax reductions.
4. The Single Tax menace eliminated forever.

Dr. Herbert Simpson, of Northwestern University, says:

> "I have come to look upon rigid tax limitation as the most effective strategy for attaining that objective" (i.e., needed changes in the general property tax) ". . . there is no middle ground on this question."

Property owners throughout the nation are unanimous for *rate* limitation. Realtors in every state, with one exception, have unanimously declared for it.

A standard query of the opponents of rate limitation is:

> "Who will carry the tax burden taken off real estate under the rate limitation proposal?"

Dr. Leland, of the University of Chicago, estimates that one-third of our taxes is wasted in needless expenditures. (March, 1937, issue, *National Tax Association Bulletin.*)

By securing greater efficiency in government, and especially in local government, and by shifting certain functions, such as charity, relief, and education to the state and Federal governments where they belong, possibly no replacement tax may be needed. No difficulty has been found in securing other sources of revenue where the tax limitation has been adopted; such additional taxes, when needed, are usually secured through the widening of the tax base.

Philip H. Cornick, of the Institute of Public Administration, writing in "Taxation and Public Policy," says: "The tax on property (real) is an assessed tax," while, ". . . taxes on sales and on incomes

are self-assessed taxes. The latter are established beforehand, and then applied by the taxpayer himself. . . ."

The property owner now has nothing to say as to the tax rate imposed upon his property. Under rate limitation, the shoe would be on the other foot. An increase in the tax rate could be obtained only by his consent.

VALUE SHOULD BE PREDICATED UPON PRODUCTIVITY

"If the rate is fixed, what is to prevent the assessor from juggling the tax base?" This point is well taken as no one has been able to discover any consistency in the average assessor's method of arriving at his taxable values.

The second proposal mentioned above provides that real estate values for taxation purposes should be predicated upon the property's productivity or use value. As adopted November, 1936, at New Orleans by the National Association of Real Estate Boards, this proposal reads:

1. WHEREAS, The tax platform of the National Association of Real Estate Boards now proposes to limit the total taxes on Real Estate with the object in view of equalizing the amount of *taxes paid,* and that it is also recognized that the *tax base* must be equalized, and

2. WHEREAS, The present system creates a false and artificial tax base, as physical bulk, square foot costs are used as yardsticks of value of all types of property, instead of the income or utility yielded by the property, and

3. WHEREAS, Such a system forces destruction of buildings and other improvements, which, if taxed on their ability to pay, could be made to yield *some* income and be conserved for possible future use, and

4. WHEREAS, This causes premature and ill-advised improvement of property, denuding of forests, and over-production in the extractive industries to avoid paying taxes on idle investments, and

5. WHEREAS, This system has resulted in alarming and ever increasing tax defaults, which have more than trebled during the past five or six years, resulting in mounting tax loads on remaining real estate, which in turn causes a continued increase in the ratio of real estate taxes to all other taxes, although incomes have been shifting heavily to non-land occupations, and

6. WHEREAS, The term "ad valorem," which means "according to value," has been misconstrued to mean "according to cost of construction or cost of acquiring" the taxed property, and that, therefore, the tax on real estate has in effect become an *excise tax,* and

7. WHEREAS, The United States and Canada are the only civilized nations in which taxes are not based on income or productivity of property, but are based on many other conflicting theories of reproduction value, or sales value, or computations of public officials as to their financial need, and

8. WHEREAS, The National Committee on Real Estate Taxation of the National Association of Real Estate Boards has given this subject careful thought and study during the past year and by majority vote of the members of the Committee has recommended that such change be made.

9. NOW, THEREFORE, BE IT RESOLVED, by the National Association of Real Estate Boards in convention at New Orleans in November, 1936, that its program for tax action state:

"We propose in each state that the present system, erroneously referred to as an 'ad valorem' tax on real property, be replaced by a system of taxation based on capital value established solely through warranted annual productivity, income or utility of real estate and that the taxation laws of the states be amended or rewritten for this purpose."

"Capital Value" Obtained Through a "Cost-Finding" Process Has No Meaning

COST-FINDING is a purely mechanical or engineering process and has to do with the expense involved in constructing new improvements or in calculating the cost of replacing buildings or some other improvements already in existence. The engineer or contractor has finished his job when he has completed the building according to specifications. **Whether or not the project is a paying one is none of his concern.**

VALUE-FINDING, on the other hand, is based on the capacity of an ownership to yield benefits and render services. It costs just as much to drill an oil well which yields nothing and to build a building which yields nothing as to drill a well which yields a thousand barrels a day or a building which yields a large net income—but **no one in his senses would say that the two oil wells and the two buildings are worth the same.**

PERCENTAGES OF TOTAL TAXES LEVIED ON REAL ESTATE BY TWELVE PRINCIPAL NATIONS (1932)*:

United States	57.5	France	11.7
Canada	40.6	Italy	8.8
Germany	23.5	Sweden	3.0
Japan	22.6	Poland	2.5
Great Britain	19.7	Switzerland	1.5
Netherlands	15.2	Belgium	.1

*From article by Dr. Paul Studenski (Univ. of New York) in the Annals of the American Academy of Political and Social Sciences, January, 1936, issue.

Note that the average real estate tax of the nations employing **income** as the basis for evaluating real estate for tax purposes is less than **one-fifth** of the tax imposed upon real estate in our country.

WHAT HAPPENS WHEN "COST" IS SUBSTITUTED FOR "VALUE"

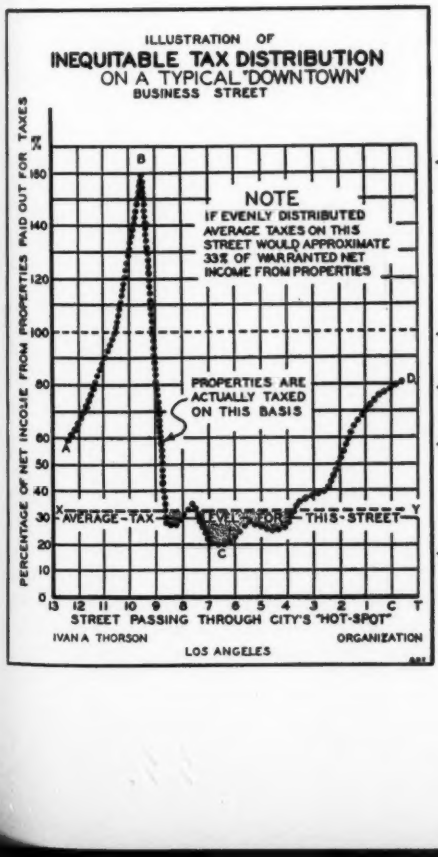


ILLUSTRATION OF
INEQUITABLE TAX DISTRIBUTION
ON A TYPICAL "DOWN TOWN"
BUSINESS STREET
PERCENTAGE OF NET INCOME FROM PROPERTIES PAID OUT FOR TAXES
NOTE
IF EVENLY DISTRIBUTED AVERAGE TAXES ON THIS STREET WOULD APPROXIMATE 33% OF WARRANTED NET INCOME FROM PROPERTIES
PROPERTIES ARE ACTUALLY TAXED ON THIS BASIS
AVERAGE TAX
STREET PASSING THROUGH CITY'S "HOT-SPOT"
IVAN A THORSON
LOS ANGELES
ORGANIZATION

WHAT THE CHART TO THE LEFT SHOWS

Dotted Line A-B-C-D shows valuations placed on properties according to the "Cost-is-Value" system.

Property at point B paid $1.60 in taxes for every dollar of net income (before taxes) it received. As might be expected, it has gone broke.

NOTE THAT UNDER PRESENT SYSTEMS PROPERTIES ON A SINGLE STREET OF 14 BLOCKS ARE TAXED ALL THE WAY FROM 20% TO 160% OF THEIR TRUE VALUE.

Property on this line pays ALL its income in taxes. (The majority of properties above the 100% line are in default.)

Property on Line D pays 80% of all its income for taxes.

Property on Line A pays 60% of all its income for taxes.

Property on Line C pays 20% of all its income for taxes.

IF ALL THESE PROPERTIES WERE TAXED AT A UNIFORM RATE OF 33⅓% OF THEIR PRODUCTIVITY, THEY WOULD STILL YIELD THE SAME TOTAL TAX.

THE PROPOSAL HAS AMPLE JUDICIARY AND OTHER SUPPORT

Over forty years ago the United States Supreme Court decision, *C. C. C. and St. Louis* v. *Victor M. Backus,* decreed:

> "The value of a property results from the use to which it is put, and varies with the profitableness of that use . . . There is no pecuniary value outside of that which results from such use . . . The amount and profitable character of such use determines such value."

The New York Court of Appeals in a tax case *(People ex rel. Lehigh Valley Ry.* v. *Burke)* ruled that the determining value factor was the "possibility of the owner to derive future returns from the land in excess of the cost and carrying charges."

In another case *(People ex rel. Ogdensburgh & L. C. R. R.* v. *Pond,* 13 Abb. N. C. 1 at 7, Sup. Cot. 1882) it was stated, "A thing, to be worth its cost, must be able to pay out of the profits from its use . . . a sum of money equal to such cost, and over and above the loss by wear or waste."

Irving Fisher, in the July, 1937, issue of *The Tax Magazine,* says:

"Income is, I believe, the most fundamental concept in economic science. Capital is significant only because it produces income, and the value of any capital is dependent on the income it produces. . . . The value of any item of capital is the discounted value of its services."

POTENTIAL VALUE SHOULD HAVE NO PLACE IN TAX CALCULATIONS

Dr. Paul Haensel, an eminent international tax student, in a recent treatise on taxation, says, "For using the expression 'potential value' in tax matters, people should be put in prison. Today you take potential value, and tomorrow you take potential value, and so every year. This is *compound potential value!*"

We certainly would resist paying an income tax on potential personal earnings. By the same token, why should we be taxed on potentialities when real estate is involved?

An appraisal for "investment" purposes differs from an appraisal for "tax" purposes in that the former is concerned with a capital value predicated upon all future benefits or income accruing during the economic life of the property, while an appraisal for tax purposes is concerned with a capital value based solely upon the present warranted net yield from the property—that is, on the yield for the current (tax) year only. This makes calculating the capital value of property for tax purposes a comparatively simple process.

The proposed valuation system, if put into effect, will, therefore, not increase the burden of the assessor, but on the contrary will very much lessen his work. Furthermore, the taxpayer himself could be required to furnish the major part of the necessary data.

The wrong way is not permitted, even if it is easier. In a decision handed down March 11, 1935, by the Supreme Court of the United States, *Stuart Dry Goods Company, et al.,* v. *John B. Lewis, et al.,* the court says:

> "The argument is in essence that it is difficult to be just, and easy to be arbitrary . . . . gross inequalities may not be ignored for the sake of ease of collection."

A consideration of the specific technique employed in valuating real estate for tax purposes under proposed valuation system must of necessity be reserved for another article.

This real estate tax matter is in its nature essentially a local or state matter which must be worked out by the property owning taxpayers and the Realtors in each state.

The present great need is to secure the services of skilled real estate valuators who really understand proper real estate appraising. The members of the American Institute of Real Estate Appraisers can render no greater service to their respective communities than to devote some of their time and ability to the establishment of sounder methods and better systems for appraising property for taxation purposes.

Report of the Annual Meeting of the Permanent Committee of The International Federation of Surveyors

By Boyd T. Barnard, M. A. I.

It is always interesting to hear what the other fellow is doing and truly inspiring if we can see how he does it. Mr. Barnard has rendered a constructive service to the Institute as a delegate to the meeting of the Permanent Committee of The International Federation of Surveyors, and his excellent report presents a clear picture of high ideals, able men, and cooperative effortthat should inspire all M. A. I.s to greater professional attainment.—Ed.

BEFORE launching into the discussion of the meetings and also the more frivolous sides of this conference, it would seem to be in order to mention a few pertinent facts about the International Federation and the Permanent Committee. Perhaps the majority of the Institute members are familiar with it, but I am inclined to doubt it. I did know something of it before going to Paris, having been fortunate enough, several years ago at the Institute meeting in Washington, D. C., to hear Maurice F. Reidy, M. A. I., speak of the general conference in London held in 1933.

The International Federation of Surveyors is an organization of surveyors and appraisers of real estate embracing membership from twelve European countries and the United States. Each member country is represented in the International Federation by its national appraising organization rather than by individuals. For instance, England is represented through the Chartered Surveyors Institution, which has chapters throughout the British Isles; in the United States, by the American Institute of Real Estate Appraisers; and so with other federated countries. The total membership is about 20,000.

The Federation is governed by a directorate known as the Permanent Committee, being representatives from each member country selected by the respective countries. Officers consist of the President, three Vice Presidents, and Secretary-General elected by the Permanent Committee for five-year terms. The present president is Colonel H. C. Cole, C.B.E., and the Secretary-General is Major A. H. Killick, D.S.O., M.C., both of London and members of the Chartered Surveyors Institution of Great Britain. Col. Cole's tenure of office expires next year.

Meetings of the Permanent Committee are held annually at various European capitals. Meetings of the International Federation are held every five years, the last being in London in 1933 and the next to be in Rome in 1938.

The meeting in Paris, at which I had the distinction of representing the American Institute of Real Estate Appraisers, was the Annual Meeting of the Permanent Committee. I was able to attend all of the Permanent Committee meetings as well as the majority of those of the various sub-committees. The various sub-committee meetings were held simultaneously which made attendance at each impossible. Voting in the meetings was done by country, each having one vote only.

Voting delegates were present from the following countries in addition to the United States: Belgium, Czechoslovakia, Denmark, France, Great Britain, Holland, Italy, Jugoslavia, Poland, and Switzerland. The absentees were Latvia and Sweden.

Program

The program was an extensive one and included many entertainment features. The French as hosts were as charming as they were generous. Nothing was overlooked in an effort to make the delegates and their wives comfortable and happy during those four days—July 15 through July 18. The complete program is outlined below:

Thursday, July 15—

9:00 A.M. Opening by the Secretary of the Committee.

10:00 A.M. At the Institute of Intellectual Cooperation Meeting of the Technical Dictionary Committee.

12:00 Noon Restaurant Cap Nord, quai de Tokio.
Luncheon given by the Chapter of the Seine.

3:30 P.M. For the Ladies.
Trip to Versailles by bus.

3:30 P.M. At the Ministry of Finance, 71 Boulevard Pererie.
Meeting of the Cadastral Committee.

6:00 P.M. Ceremony of Placing Wreath on Tomb of Unknown Soldier.

Friday, July 16—

9:00 A.M. Meeting of the Permanent Committee.
12 Rue de Mariguan.
Col. Cole presiding.

9:00 A.M. Meeting of French Surveyors.
8 Rue Jean-Goujon.
M. Jarre presiding.
10:30 A.M. For the Ladies.
Presentation by Lucien Lelong of new gowns.
16, avenue Matignon.
11:45 A.M. At Hotel-de-Ville.
Reception by the Paris Municipality for members and guests.
3:00 P.M. Opening of afternoon session by Col. Cole.
8 Rue Jean-Goujon.
3:15 P.M. Discussion of the work of the conference by Major Killick, Secretary-General.
3:30 P.M. Discussion of the work of the French Surveyors by M. Brazier, General Secretary.
4:00 P.M. Lecture by General Perrier, Member of the Institute, on his two expeditions in Central America (illustrated).
8:30 P.M. Dinner at Cafe Lido, 78 Avenue des Champs-Elysees for members and guests. Presentation of the wines of France.

Saturday, July 17—
9:30 A.M. Exhibition of Professional work (Cadastral maps, etc.).
Museum of Modern Art, Exposition Grounds.
2:30 P.M. Meeting of the Permanent Committee.
12 Rue de Marignon.
2:30 P.M. For the Guests—Tour by auto bus around Paris, including Saint Germain. Returning at 8 P.M.
8:00 P.M. Banquet, Eiffel Tower Restaurant. Closing of the Conference. M. Julien, Under-Secretary-of-State, presiding.

Sunday, July 18—
7:30 A.M. Tour to Rouen; leaving 7:30 A.M., returning 9:00 P.M. to Paris.

MEETINGS

All sessions were held officially in French, although some English was spoken. Each session was quickly translated into English, however, by Miss Clara Baumann. The great majority of delegates (particularly continental Europeans) had an understanding of spoken French. The conduct of the meetings was serious and businesslike, rather formal, but not uncomfortably so.

The first meeting of the Permanent Committee was taken up principally with the appointment of the voting delegates, the reading of the minutes of the 1936 meeting held in Belgrade, and the selection of the time and the place for the general meeting of the Federation in 1938. Signor E. Fanti, Vice President, officially invited the Federation to Rome sometime early in October, 1938. An effort is being made to synchronize this meeting with that of the International Exhibition of Photogrammetry.

The draft of the program in Rome was presented and tentatively passed. The appointment of technical committees as follows for the Congress was agreed upon:

Committee I. Cadastre.
Committee II. Instruments and Methods (subject to coördination with programme of the International Federation of Photogrammetry).
Committee III. Town Planning and Remaniement.
Committee IV. Professional and Technical Education (subject to the inclusion of the following additional subject heading, namely, "Organization of Personnel").
Committee V. Junior Surveyors.

A lengthy discussion ensued concerning the manner in which technical reports were to be submitted at the Congress and the sources from which the reports were to be accepted. The spirit of the meeting was that reports were "to stress as far as possible the social and economic relationship of the surveyor's functions to the State, as well as the duties which a properly trained surveyor is qualified to undertake."

The second meeting of the Committee opened with the statement by the Secretary-General that the 1935-36 Administrative Report had been circulated to the Secretary-General of the League of Nations. The efforts used by the Federation to strengthen contact with the League was further emphasized by the President.

Various standing committees reported as follows:

Central Committee:

The committee recommended (subsequently passed) certain amendments to the Standing Orders (By-Laws) relative to the power of the Executive action in emergency issues, also relative to defaulting members in the payment of membership dues.

The Central Committee's proposal to establish a new section of membership for surveying departments of Government provoked the most heated discussion of the meeting. The best minds represented seemed quite divided in opinions. One group insisted that Government did not belong in the Federation, although a non-voting class might not be disadvantageous.

Some of the types of expression were as follows:

"The suggestion (of a new section of membership) is a very good one, but it must be under-

stood as subject to the country asking for Government representation being already affiliated by an association. It was more interesting to have professionals than Government representatives."[1]

"There are a number of small nations without any affiliated association; for instance, attached to the Surveyors Institution in Great Britain, there are members in the colonies and dominions, and in few of these latter are there any associations. The idea is to bring in those smaller nations."[2]

"Ours is a corporative association rather than a governmental body. Governments intervened to protect the corporation and to advance their work. Something here might, however, be useful and that was not the Government but the cadastral department which might join the Federation without, meanwhile, being allowed to intervene in the direction of the Federation's business. In that way they would obtain Service men and qualified men."[3]

"The affiliation of a Government could be effected if, in the country concerned, no professional association existed; or, the country could be represented by its Government if an association existed which was already affiliated. It would be a good thing to get the affiliation of official cadastral services."[4]

"There are possibilities in the proposal to increase the status of the Federation. Our Federation is a 'cultural' association, desirous of progress, and if we could obtain Government membership, it ought to be in the interests of the Governments concerned and of the Federation. There are no opposing interests here."[5]

The President, Col. Cole, was desirous of having some type of Government membership. Before the discussion proceeded too far, he was able to have the decision deferred until the next meeting of the Permanent Committee in Rome, prior to which meeting the Secretary-General was instructed to circulate a memorandum giving pro and con arguments on the proposal.

Progress Reports:

Reports of progress during the current session made by member countries in surveying matters were received from:

Belgium
Czechoslovakia
Great Britain
Holland
Italy
Jugoslavia
Poland
Sweden

Herr Hendriksen, on behalf of Denmark, undertook to forward a report later, and the Secretary-General was instructed to attach these reports as an appendix to the Administrative Report, prior to its circulation to the League of Nations and to member-countries. The receipt of the aforementioned reports was warmly applauded.

Report of the Technical Dictionary Committee:

On a Report of the Technical Dictionary Committee dated the fifteenth of July, 1937:

> It was noted with great satisfaction that during the session steady progress on the technical dictionary has been maintained, the Belgian contribution now amounting to 4,380 terms. All these terms had been translated into German, English, French, Flemish, and, in some cases, Italian.
>
> In addition, the 1,400 words collected by Great Britain, containing for the most part French translations, had been reviewed by the Belgian representative and completed in the French language, and on many of the cards German translations also added.
>
> The French collection had further been increased to some 2,000 terms, each term being amplified by a short explanatory phrase, while approximately three-quarters of these terms had been translated into English by the English representative.

Other reports included the Cadastral Committee, Administrative Committee, and the Finance Committee.

The United States was asked to assume the Chairmanship of the Town Planning Committee for the coming year. This Chairmanship was first offered to Denmark and declined. As the United States representative, I also declined because I felt that such an important Committee should be headed by some country that was in more constant and easy touch with the various other countries than would be possible for the United States. European town planning problems are very acute. I questioned if the United States were best qualified to assume this chairmanship even though the difficulties of distance and communication might be eliminated. Great Britain finally accepted as Chairman, which seemed to be a more logical selection. In discussing the matter later with Col. Cole, the President, he agreed that he was making a friendly gesture to the United States in offering the Chairmanship of this Committee and was not disturbed in the least that it was declined.

The meeting closed with an exchange of complimentary reports between President Cole, Signor Fanti of Italy, and M. Danger of France.

SUB-COMMITTEE MEETINGS

The Technical Dictionary Committee:

The Technical Dictionary Committee was the first to meet on Thursday. It was an interesting session. The Chairman of this Committee is M. H. DeSchryver, of Belgium. He is an expert linguist and is spending a great amount of time in

[1] M. Roupcinsky, Belgium.
[2] The President, Col. H. C. Cole, C.B.E., Great Britain.
[3] M. Rene Danger, France.
[4] M. Roupcinsky, Belgium.
[5] M. Fanti, Vice President of the Federation, Italy.

endeavoring to complete this dictionary. Mr. DeSchryver had a copy of and was familiar with the publication, "Appraisal Terminology," by the American Institute of Real Estate Appraisers, which, he stated, had been of great interest and help to him. The objective of this Committee is to translate into the various languages that are represented in the Federation the technical vocabulary consisting of some 7,000 technical terms. This is really a remarkable undertaking, as it requires not only a translator but a person who is also a technical expert and a surveyor. The progress of the Committee was referred to above in its report to the Permanent Committee. The Committee was complimented by the President, Col. Cole.

The Cadastral Committee:

The Cadastral Committee is an activity for which we have no parallel in the organization of the American Institute of Real Estate Appraisers. It has to do with the subject of cadastre.

Cadastre deals with land surveying including topographical surveys for governmental purposes.

The outstanding report in the Cadastral Committee Meeting was by Mr. V. L. O. Sheppard, C.B.E., of Great Britain, whose life has been spent in land registration work under the British Government. He is credited with having set up the present system in Egypt and in much of the East Indies. His report represented the collation of information received from fifty-five countries. His various exhibits were to have been on display in the Cadastral Exhibition of the Paris Exposition. Through some misunderstanding they were not placed on view. This Cadastral Exhibition included copies of survey maps and land registration systems of many of the French Departments, Sweden, Italy, and other European countries.

General Comment

The similarity of the sessions to our own was easily noted. While they were handled in a businesslike way, the usual number of delegates was there who insisted upon being heard in a most minute way on quite unimportant matters. The business of the sessions probably could have been accomplished in less time, but it seems to be the characteristic of the European people to take plenty of time out for diversion—probably an excellent thing.

The places of the meetings were unusually interesting, particularly so to an American. For example, the Technical Dictionary Committee met in the room used by the French members of the League of Nations, which is in one of the Napoleonic Palaces. All of the meetings of the Permanent Committee were in the Elysee-Palace, a typical French hotel elaborately decorated in the Empire style. One of the receptions afforded the opportunity to see the Hotel-de-Ville, which corresponds to the city or town hall of American cities. This is also a magnificent building, highly decorated in the French style and containing many famous art treasures. The Federation, as a part of the regular program, placed a wreath on the tomb of the unknown soldier, which lies underneath the Arc de Triomphe. This ceremony was well attended and quite impressive. The delegates met a number of important personages, particularly at the Reception of the Municipality of Paris at the Hotel-de-Ville and at the Reception given by the Chamber of Commerce of Paris, as well as at the closing banquet held in the Eiffel Tower. On this last occasion the guests were briefly addressed by the Assistant Minister of Finance for France. Considering the state of French finances at that particular time and the difficulty his department was having, it seemed quite a tribute to the Federation that this personage, who was reported to be largely responsible for the new financial program, would give up an entire evening from his pressing official duties.

Conclusion

There is much to be gained from an experience such as this meeting. One of the great inspirations, however, is to see the sincerity with which all of these men from various European countries are working on common problems, hoping it will further aid international understanding and be a positive influence on international good will. To see them working toward this ideal reinforces some feeling of confidence in the future relationships between countries. There is, of course, a national feeling on the part of all these people, but they are earnestly trying to accomplish things along international lines. It would appear that there are many common problems in which the United States could take active participation. The Federation appears to be quite anxious for closer relationship with the United States.

Comment and Discussion

Smith—ON VALUE

THE spectacle presented by prominent members of the appraising profession contending publicly with one another over the definition of *value* is about as logical as two old and experienced coal miners disagreeing about what constitutes coal. It may be granted that the application of the definition of *value* to a specific problem often provides a moot question. But certainly there should be no divergence of opinion on what constitutes the elements of value itself. Value is the chief ingredient in which we as appraisers deal. Opinions concerning it are our merchandise. We cannot confess publicly that we are at variance on this vital issue without causing a lessening of confidence in our opinions by the public which we are trying to serve.

Disraeli cried, "I hate definitions!" We all strain at the restrictions imposed by cold type upon the variety of conceptions created by common usage. For that reason, Webster's work is still one of the best sellers. But we must bear in mind that it is necessary to buy a new dictionary every few years in order to keep abreast of the changes brought about by the march of progress.

The current Webster definition of value is "the property or aggregate properties of a thing which render it useful or desirable; efficiency in exchange; purchasing power; proper or legitimate price, as distinct from an unfair one; the comparative estimate that an individual places on any of his possessions independently of any intent to sell."

Many appraisers in the previous decade may have subscribed to the doctrine expounded recently in this column that "to the man in the street the value of a thing is what it will bring" and then have lived to see that doctrine utterly controverted by the wretched market conditions during the depression. Conversely, many well-qualified appraisers agree that we may experience again the post-war condition wherein used properties were sold above their *value*. Surely, we are to emerge from the hectic ups and downs of the last twenty years with a better appreciation of the fundamentals regarding *value* than merely "what it will bring." Such a concept of value may be appropriate for a man in the street, but it is hardly a proper attitude for appraisers.

If the Institute may point with pride to a single achievement during its relatively short life, it would be the rationalization of thought on this subject. That real estate can have more than one value under extraordinary circumstances is quite generally admitted. The value of a life preserver on a doomed and overcrowded ship in stormy mid-ocean would be far greater than its cost of reproduction or its market price. Similarly, the value of a specific parcel of real estate could be worth decidedly more (or less) under unusual conditions surrounding its ownership. The appraiser has a wide latitude in making various estimates of *value* to meet specific conditions or requirements of stated individuals provided that such limiting conditions or premises are stated fully in the report. But in arriving at a value estimate which is to be accepted for the guidance of the public generally, the appraiser must confine himself to one estimate of *value* and must suit that estimate to the typical case.

The whole question revolves around the two fundamental and elemental conclusions which should be made by every appraiser before proceeding to place an estimate of value upon the subject property, namely, the nature of the problem and the purpose of the appraisal. If the client, in ordering an appraisal, is asking: "What is the value of this property to me as an owner occupant operating a going business?" or "What is the present reproduc-

tion cost of this property less depreciation so that I may procure adequate insurance coverage?"—then a special purpose appraisement is indicated. It is very unlikely that any qualified appraiser would offer the same estimate of *value* in either of these cases that he would when preparing a report for a prospective purchaser or mortgagee. On the other hand, if the client is asking: "What *value* would the average man or society in general be justified in placing upon this property?"—he wants an appraisal that conforms to the common conception of *value*, namely, the present worth of the future usefulness of the property to a typical and intelligent user or purchaser. If the value estimate were not projected at the needs of the typical user, it would be necessary to provide a specific individual upon whose special requirements or tastes the value estimate would be predicated. This is quite feasible in special purpose appraisals, but it would be ridiculous in appraising generally.

Such reasoning results in a logical conclusion that, before we attempt to evolve an opinion of value, we must answer the question of "Value to whom?" *Value*, like beauty, arises and finds its being in the eyes and mind of the beholder. If we are discussing the *value* to one particular individual, the opinion of *value* by the appraiser would result from an attempt to analyze the subject property from the viewpoint and position of that person. If we are considering the *value* to the many individuals making up society generally or, as we say, the *value* to the *typical* individual, the value estimate would follow intensive reflection upon the subject property from the standpoint of general and typical requirements. It would be quite possible that the opinions of value in the two cases would be different. Furthermore, the position of the appraiser in having different values in either case would not be untenable or unethical, provided that the conditions under which each appraisal has been made are stated fully in the report.

It has been interesting to note that when a "dyed-in-the-wool" proponent of one school of thought on the subject of *value* is associated on an appraisal with an equally qualified valuator who is diametrically opposed in thought, their estimates of value are usually not far apart. Subjectively, they are enemies; objectively, they are allies. It is the academic discussion of value that provokes difficulties. From this it would appear that we require a common ground of thought upon which to rest the super structure of appraisal technique which is already quite well developed.

To meet this need for unity of thought, it is suggested that we recognize two major classifications of value and, accordingly, of appraisals. The first group would be called "Normal Valuation" appraisals. It would include all appraisals wherein the estimate of value is presented from the standpoint of reactions based upon the needs of society generally for the subject property. The opinion of value in this group would be the dollar estimate of the utility, desirability, and stability factors embodied in the subject property contemplating a typical, rational, and intelligent user or purchaser. The so-called "Market Value" appraisals would find their place in this classification.

The second group would be called "Restricted Valuation" appraisals and would include all appraisals not coming properly in the first group. Here would be found all special purpose appraisals. The restricted conditions under which the opinion of value was evolved and the reasoning concerning the value to the particular entity involved would be set forth fully in the report. "Restricted Valuation" appraisals would include insurance, tax, condemnation, litigation, and public utility ratemaking estimates of value. Great stress would have to be placed upon the importance of setting forth fully in the report the restricting or limiting conditions under which the appraisal had been made. Probably it would be advisable to require in the ethics of the profession that the

words "Normal Valuation" or "Restricted Valuation" be included in the title of the report.

The suggested procedure would appear to preserve the sanctity of the well-established theory of "one value" and at the same time provide a flexibility that would make possible and defensible the special purpose appraisal to suit unusual requirements. It would do much toward effectually laying for all time the ghost of discord over the question of *value*—the ghost which has stalked too long within the ranks of the profession. The change would engender harmony among appraisers to the end that other problems of valuation technique could be attacked more effectively.

The President of the Institute has sounded frequently the warning that already the abilities of competent appraisers are being challenged by rising market conditions and that the gauge of battle has been flung down by those forces that seek unfair advantage. Now is the time for a renaissance of reason in the appraising profession. Let it begin with a reasonable adjustment of the most fundamental principle with which we deal—our conception of value.

During the first century in Rome there lived a Greek philosopher who was transplanted to Rome as a slave. The truths he expounded so humbly in that early time live today and find ready application to present-day problems. It is unlikely that Epictetus was a real estate appraiser, but the soundness of his logic as displayed in his writings should qualify him as the patron saint of the appraising profession for his immortal utterance, "Since it is Reason which shapes and regulates all other things, it ought not itself to be left in disorder."

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Tredwell—ON DEPRECIATION AND THE "FORGOTTEN MAN"

THE exponents of various depreciation theories have been waging heavy verbal warfare. An impartial war correspondent would be forced to call the present status a stand-off, with none of the parties being willing to retreat from their established entrenched positions.

Let us try and simplify the discussion by laying aside for a moment the theoretical claims which have been made and supported by detailed and elaborate mathematics.

Depreciation is a necessary element in the appraisal process because, where buildings and equipment are concerned, we are dealing with wasting assets.

Depreciation for appraisal purposes occurs from three separate causes:

1. Physical—the wearing out of the bricks and mortar.
2. Functional (or obsolescence)—the going out of style.
3. Economic—changing districts, transportation, etc.

Depreciation must be considered generally under two classifications: the amount to the date of appraisal and the provision for future depreciation, that is, to the end of the economic life of the building and equipment.

The appraiser must consider accrued depreciation in order to determine the depreciated reproduction cost of the improvements as a check in the valuation process. Appraisers generally, except the annuitists, agree that the amount of accrued depreciation, embracing as it does physical, functional, and economic factors, cannot be measured by any formula. Determining the amount of accrued depreciation is largely a matter of observation and judgment.

The annuitists claim that no estimate of accrued depreciation is necessary; they claim that by using their building residual plan, the economic value of the building is automatically determined and that the difference between this economic value and the reproduction cost new is the accrued

depreciation from all causes. They claim, further, that any estimate of accrued depreciation is subject to too great an error if an under- or over-improvement is under consideration. Does it occur to them that their assumptions of the future income stream may be subject to even greater error?

The appraiser must consider a reserve for future depreciation to balance the wasting asset in the improvements. All are agreed that the only sensible method of providing for this future depreciation is by means of annual deductions from the income, which will return the capital invested in the improvements over the estimated economic life of these improvements.

The parting of the ways has now been reached—it is on this question of how to determine the amount of this annual charge for future depreciation that most of the verbal warfare is being waged.

The annuitists realize the weakness of their method when level annuities are used, and they recommend that declining annuities be applied to building returns. This is a much more reasonable treatment, for building incomes *do* decline.

This, however, does not eliminate the weakness common to the annuity (except the straight-line declining annuity) and sinking fund methods. This weakness is that never until the end of the economic life of the building does the depreciation reserve equal the accrued depreciation.

The annuitists claim a further superiority for their declining annuity method by stating that the straight-line method assumes a level income.

While the straight-line method may appear to assume a level income, actually it does not. The income can decline in a straight line and still pay the assumed rate on the remaining building investment plus the depreciation.

This is illustrated as follows:

BUILDING VALUE $40,000; REMAINING ECONOMIC LIFE 25 YEARS; STRAIGHT-LINE DEPRECIATION CHARGE 4 PER CENT; INTEREST RATE ON BUILDING INVESTMENT 6 PER CENT

Years	Building Income Required	Building Investment	4 Per Cent Straight-line Depreciation	6 Per Cent Return on Building Investment
1	4,000	40,000	1,600	2,400
2	3,904	38,400	1,600	2,304
3	3,808	36,800	1,600	2,208
4	3,712	35,200	1,600	2,112
5	3,616	33,600	1,600	2,016
6	3,520	32,000	1,600	1,920
7	3,424	30,400	1,600	1,824
8	3,328	28,800	1,600	1,728
9	3,232	27,200	1,600	1,632
10	3,136	25,600	1,600	1,536
11	3,040	24,000	1,600	1,440
12	2,944	22,400	1,600	1,344
13	2,848	20,800	1,600	1,248
14	2,752	19,200	1,600	1,152
15	2,656	17,600	1,600	1,056
16	2,560	16,000	1,600	960
17	2,464	14,400	1,600	864
18	2,368	12,800	1,600	768
19	2,272	11,200	1,600	672
20	2,176	9,600	1,600	576
21	2,080	8,000	1,600	480
22	1,984	6,400	1,600	384
23	1,888	4,800	1,600	288
24	1,792	3,200	1,600	192
25	1,696	1,600	1,600	96
26	0	0	0	0

The appraisal of market value presupposes a sale and, of necessity, a purchaser. This prospective purchaser is the "forgotten man" in all the depreciation discussions.

The prospective purchaser is interested in the future of the property. He wants and is entitled to:

1. A return on his invested capital.
2. His capital back—sometime—somehow.

If he is an average purchaser, he does not expect to own the property until the end of the economic life of the improvements. Assuming his ownership is only for a comparatively few years, would it not be reasonable for him to expect a pro rata or straight-line return of his capital invested in the building?

A further important consideration is that of simplicity of presentation. Ask any sales manager about the danger of getting "high-hat" with a prospect.

In the straight-line presentation you can point to a definite figure and say: "This, Mr. Jones, is the amount of money you will get each year of your ownership to write off your investment in the depreciating building."

In the annuity presentation you are forced to explain: "Yes, Mr. Jones, the return of your capital invested in the building is provided for, but in order to show how you will receive it, I shall have to prepare a table showing the credits to interest and return of capital for forty years."

This discussion is merely a plea for simplification. When all is said and done, if the appraiser uses sound judgment (and if he does not, he is not an appraiser), the end result will be a fair valuation regardless of the particular technique used.

A detailed discussion of the pro and con arguments of the followers of various depreciation theories with imposing mathematical supporting data has been purposely omitted. These have been ably covered in previous issues of the *Journal:*

July, 1934—"Depreciation Allowances," by Frederick M. Babcock, M.A.I.

October, 1935—"Depreciation," from the Text Material of the Institute's Appraisal Courses.

January, 1936—"Depreciation—Past and Anticipated," by Ayers J. du Bois, M.A.I.

October, 1936—"Accrued Depreciation," by K. Lee Ryder, M.A.I.

April, 1937—"Amortization or Depreciation Reserves," by Cuthbert E. Reeves, M.A.I.

JOHN C. TREDWELL, M.A.I.
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Stolp—ON CEMETERY VALUATION
Hoskold's Formula as Applied to March 1, 1913, Cemetery Land Values[1]

MANY cemetery officials and attorneys representing cemeteries in income tax matters have asked, "What is Hoskold's Formula?" Men fear that which they do not understand. Our fear of lightning disappeared when we learned to tame electricity. The purpose of this article is to tame Hoskold. His formula, a product of higher mathematics, expresses a computation for a simple business transaction.

Scotty Henderson inherited a quarter section of rolling farm land, contiguous to a thriving city, from his father. In 1888, at the age of thirty-five, he decided to go into the cemetery business and converted the farm into two cemeteries, one for the Christian (white) faith and one for the Jewish faith. The division into two cemeteries was accomplished by the simple expedient of building a natural stone wall about two feet high across the quarter section.

Early in 1913, at the age of sixty, Scotty decided, if he could sell his cemeteries at a fair price, to retire and perhaps spend the rest of his years in travel. Sandy Anderson became a prospective purchaser for the Christian cemetery and Jacob Rosenbloom for the Jewish cemetery. Scotty was not compelled to sell and Sandy and Jacob were not compelled to buy. If Scotty sold and Sandy and Jacob bought, surely no one would deny that the prices paid would represent the fair market value of the properties.

The seller and the purchasers agreed that an informative survey would be made and the prices paid would be based upon Hoskold's formula.

The survey showed as follows:

	Christian	Jewish
Remaining square feet available for sale on March 1, 1913	1,000,000	1,000,000
Average yearly sales in square feet	40,000	20,000
Estimated remaining life in years	25	50
Standard selling price per square foot	$1.50	$1.50
Estimated selling expense per square foot	.10	.10
Amount set aside for the care fund out of the standard selling price per square foot	.60	.60
Net price realized on each square foot sold	.80	.80

[1]This article is reprinted from *The American Cemetery*, August, 1935.

Hoskold's formula, as related to these transactions, contemplates that the purchaser will make enough profit on his investment each year so that he can withdraw (let us say) 8 per cent on the purchase price annually as a dividend, and will have enough profit left over so that he can deposit this surplus profit in the savings bank annually where it will accumulate at (let us say) 4 per cent compound interest. By the time all the footage is sold, the purchaser will have on deposit a sum equal to the original purchase price.

The formula is:

$$P_n = \frac{1}{\frac{r}{R_n - 1} + r'}$$

Where P_n = purchase price (present value)
l = yearly value of net sales of land
r = capital rate of interest (4%)
r' = risk or profit rate of interest (8%)
n = the number of years (life of cemetery)
$R_n = (1+r)^n$

Application of the formula:

	Christian	Jewish
Net price realized on sales $.80×1,000,000 (sq. ft.)	$800,000	$800,000
Estimated life of cemetery (years)	25	50
Annual net price realized on sales	$32,000	$16,000

Christian

$$P_n = \frac{1}{\frac{r}{R_n - 1.} + r'}$$

$$P_n = \frac{\$32,000}{\frac{.04}{(1.04)^{25} - 1.} + .08}$$

$$P_n = \frac{\$32,000}{\frac{.04}{2.665836^* - 1.} + .08}$$

$$P_n = \frac{\$32,000}{\frac{.04}{1.665836} + .08}$$

$$P_n = \frac{\$32,000}{.02401196 + .08}$$

$$P_n = \frac{\$32,000}{.10401196}$$

Jewish

$$\frac{1}{\frac{r}{R_n - 1.} + r'}$$

$$\frac{\$16,000}{\frac{.04}{(1.04)^{50} - 1.} + .08}$$

$$\frac{\$16,000}{\frac{.04}{7.1066833^* - 1.} + .08}$$

$$\frac{\$16,000}{\frac{.04}{6.1066833} + .08}$$

$$\frac{\$16,000}{.0065502 + .08}$$

$$\frac{\$16,000}{.0865502}$$

	Christian	Jewish
Total purchase price =	$307,656.92	$184,863.80
Purchase price per sq. ft.	$ .3076	$ .18486

Proof of the computations:

Sales each year (new management) square feet	40,000	20,000
Net price realized on sales	$ .80	$ .80
Amount of annual sales—net	32,000.00	16,000.00
Deduct: 8% (risk rate) dividend on purchase prices, $307,656.92 and $184,863.80	*24,612.55*	*14,789.10*
Balance to be put aside annually in redemption fund at 4% compound interest	7,387.45	1,210.90
Amount of $1.00 set aside annually at 4% compound interest:		
In 25 years	$ 41.6459*	
In 50 years		$152.667*
$7,387.45 put aside annually will equal	$307,657.00	
$1,210.90 put aside annually will equal		$184,864.00
The purchase prices were	$307,656.92	$184,863.80

Under the terms of the agreements Scotty should sell the 1,000,000 square feet in the Christian Cemetery for $307,656.92, which is at the rate of $.30 per square foot, and sell the equally good property, the 1,000,000 square feet in the Jewish Cemetery, for $184,863.80, which is at the rate of $.18 per square foot. These two prices must be the fair market value of the properties, because they are computed on a mathematical basis! On the north side of the stone fence a square foot of land has a March 1, 1913, value of $.30 per square foot and on the south side of the fence, two feet distant, a square foot of similar land has a March 1, 1913, value of $.18. No sir, you can't fool a mathematician!

Trouble now arises. Scotty does not see why he should sell Jacob one million square feet of land for $184,863.80 when exactly the same kind of land of equal area can be sold to Sandy for $307,656.92. It is absolutely certain that Sandy will not pay Scotty $307,656.92 if Jacob acquires his Jewish Cemetery for $184,863.80. On the other hand, Jacob does not want to wait

fifty years to recover his capital investment; he does not expect to live that long.

These three friendly financiers go into "conference" on the matter. It is decided that Scotty will fence off 500,000 square feet on the west end of the Jewish Cemetery and open up a Colored Cemetery. An informative survey shows that the negro population of the adjacent city will provide cemetery sales of 20,000 square feet of land yearly for that purpose.

Squire Jones is now called into the picture, and he agrees to buy the Colored Cemetery on the basis of Hoskold's formula, and Jacob will pay the same price for the remaining land in the Jewish cemetery.

Here it is:

Expected sales each year, in square feet	20,000
Expected life (500,000 sq. ft.÷20,000) years	25
Expected net sales prices	$ .80
Net price realized on all the land 500,000×$.80	$400,000.00
Net price realized each year on sales	$ 16,000.00

$$P_n = \frac{1}{\frac{r}{R_n - 1.} + r'}$$

$$P_n = \frac{\$16{,}000}{\frac{.04}{(1.04)^{25} - 1.} + .08}$$

$$P_n = \frac{\$16{,}000}{\frac{.04}{2.665836^{*} - 1.} + .08}$$

$$P_n = \frac{\$16{,}000}{\frac{.04}{1.665836} + .08}$$

$$P_n = \frac{\$16{,}000}{.02401196 + .08}$$

$$P_n = \frac{\$16{,}000}{.10401196}$$

Total purchase price = $153,828.46
Purchase price per square foot = $.3076

Proof of computation:

	Revised Jewish	Negro
Sales each year, in square feet	20,000	20,000
Net price, per square foot realized on sales	$ .80	$ .80
Amount of annual net sales	$16,000.00	$16,000.00
Deduct: 8% dividends on purchase price of $153,828.46	*$12,306.28*	*$12,306.28*
Balance to be set aside annually in redemption fund at 4% compound interest	*$ 3,693.72*	*$ 3,693.72*
Amount of $1.00 set aside annually for 25 years at 4% compound interest	$ 41.6459	$ 41.6459
Amount of $3,693.72 set aside annually	$153,828.30	$153,828.30

Purchase price:	Total	Per Sq. Ft.
Negro Cemetery	$153,828.46	$.3076
Revised Jewish Cemetery	153,828.46	.3076
Christian Cemetery	307,656.92	.3076

By dividing the original Jewish Cemetery and estimating sales of 20,000 square feet per annum in the Negro Cemetery, we have changed the March 1, 1913, value from $.18 to $.30 per square foot.

Scotty now sells; Sandy buys, although the $.18 value has created doubts about it; Jacob buys, knowing he will get 8 per cent on the higher value and all his money back in twenty-five years, and Squire Jones has acquired a cemetery for his people.

A new stone wall has given all the land a $.30 value as of March 1, 1913!

Before the readers of this article become too excited, I shall explain that at the moment when Sandy, Jacob, and the Squire were about to hand Scotty their certified checks totalling $615,313.84, Scotty woke up. You understand, it was all a nightmare to Scotty caused by indigestion due to a shock.

The day before an internal revenue agent paid Scotty a visit pertaining to his income tax return. Scotty had been deducting $.90 per square foot as the March 1, 1913, fair market value of his land which he sold. (Selling price $1.50, less perpetual care, $.60.) The revenue agent informed Scotty the Bureau in Washing-

ton had readjusted the March 1, 1913, valuation to $.2549 per square foot.

The calculation the Bureau made is as follows:

Available area in square feet (Christian and Jewish)	2,000,000
Average annual sales in square feet	60,000
Estimated life, in years	33
Total net sales price ($2,000,000×$.80	$1,600,000
Estimated annual net sales	$48,484.84

$$P_n = \frac{1}{\frac{r}{R_n - 1.} + r'}$$

$$P_n = \frac{48{,}484.84}{\frac{.04}{3.6483810967^* - 1.} + .08}$$

$$P_n = \frac{48{,}484.84}{.095103566}$$

March 1, 1913, total value = $509,810.96
Value per square foot = $.2549

Proof:

Average expected annual sales	$ 48,484.84
Profit—8% on $509,809.16	40,784.73
Balance to the redemption fund	$ 7,700.11
Amount of $1.00 set aside each year at 4% compound interest for 33 years	$ 66.209527
Amount of $7,700.11 set aside annually	$509,820.64

In this story on the application of Hoskold's formula the reader will notice that all the assumed factors are constant except the life of the cemetery. The square foot values of $.3076, $.18486, and $.2549 arise not from a change in the intrinsic value of the land, but from a change in the expected life of the cemetery.

The expected life of a cemetery is the one factor which no human being can foretell; yet the Internal Revenue Department bases its March 1, 1913, values of cemetery lands on this factor.

In one actual (1932) case the Department fixed sixty-five years after March 1, 1913, as the life of the cemetery. The following exact data show the uncertainty of the life of this cemetery; therefore, the absurdity of the Department's March 1, 1913, fair market value because, under the application of Hoskold's formula, the expected life is the *main* factor in determining the resultant value.

Year	Area Sold	Area Remaining	Remaining Life in Years	Remaining Life in Years
1853		7,731,464		
1853-1913	5,219,327	2,512,137	30	
1914	27,345	2,484,792	91	
1915	26,570	2,458,222	93	
1916	23,618	2,434,604	103	
1917	26,436	2,408,168	91	
1918	24,879	2,383,289	96	92
1919	36,387	2,346,902	64	85
1920	34,458	2,312,444	67	79
1921	49,997	2,262,447	45	66
1922	45,771	2,216,676	48	58
1923	44,201	2,172,475	49	52
1924	35,099	2,137,376	61	51
1925	35,913	2,101,463	59	50
1926	37,293	2,064,170	55	52
1927	31,891	2,032,279	64	55
1928	27,370	2,004,909	73	60
1929	37,336	1,967,573	53	58
1930	29,679	1,937,894	65	59
1931	23,634	1,914,260	81	64
1932	20,657	1,893,603	92	68
1933	13,510	1,880,093	139	75
1934	17,524	1,862,569	106	89

The results in the first "remaining life in years" column are obtained by dividing the area remaining at the end of a year by the sales of that year. The results in the second "remaining life in years" column are obtained by dividing the area remaining at the end of a year by the average annual sales of the preceding five years. During the period 1853-1913, sixty years, two-thirds of the area was sold; upon this basis the remaining life in 1913 would be thirty years.

Boy! Please page the appraisers and secure the sales records of similar property.

JOHN A. STOLP, C.P.A.
Chicago, Illinois.

(*Henry Davis Hoskold, a civil and mining engineer, was Chief of the Argentine Government National Offices of Mines and Geology, etc., for eighteen years. His first edition of *Engineer's Valuing Assistant*, in which the formula appears, was published in 1877. The second edition appeared in 1905. In this article values marked (*) are taken from the second edition, although the same values appear in other reliable compound interest tables.—Author.)

Mack—ON LAND DEPRECIATION

THE Courses of the American Institute of Real Estate Appraisers held at the University of Chicago during the years 1935 and 1936 afforded me priceless opportunities to improve my valuation work. Not the least of the benefits afforded by these Courses was the opportunity to fraternize with other appraisers from widely scattered parts of the nation and to discuss varied theoretical and practical applications of appraisal technique. Informal evening discussions held in the Judson Court Library and in the dormitories where we resided often developed illuminating results. The effect of percentage leases on future income streams, the subtle and surprising premises contained in the level annual sum and other depreciation theories, and the vagaries of district mutation illustrate the subjects of some of these discussions. However, to my best recollection, no one ever thought to bring up, either in class or in the more informal round table discussions, the apparent tendency toward the depreciation of *land* in many cases in an approximately direct ratio with buildings.

It will be generally agreed, I believe, that the capitalization approach to valuation assumes land value in perpetuity. In the "building residual" method, we first set aside sufficient of the net income to provide for an annual return on the land value. In the "land residual" approach, we capitalize the net remaining after adequate provisions have been made for building depreciation and a return upon the capital invested in the building. In the "land reversionary" method, we consider (in most cases) that the value of the reversion at the time of its estimated receipt will be equal to the present value of the land. In none of these cases is there generally any provision for write off of all or any portion of the capital value of the land.

It is true that capitalization into perpetuity at, say, 7 per cent is equal to a level annual sum annuity for about seventy years. However, the districts are scarce in which land values do not decline during a seventy-year period or where they go up and then down sufficiently so that a seventy-year term will be equivalent to a level annuity value.

During the last fifteen years of real estate valuation work (much of which time was spent in groping in the dark), I have never found a district conforming with either of these two types. Surely such districts, if any, are not typical of appraisal problems encountered by members of the Institute.

Sometime ago I was reading an article in a pamphlet published by a building materials association. This article set up two schedules of maintenance costs and depreciation, one relating to a soundly constructed dwelling and the other to a flimsily constructed dwelling. The depreciation computations assumed a forty-year useful life of each building and proved conclusively that the savings on the well-built house were sufficient to pay for its extra cost about three times during its estimated life. The item that arrested my attention was that in each case the building and *land* were written off entirely during the estimated useful life of the property. This idea struck a responsive chord in me because my experience with vacant lots in residential districts that have arrived at or approximately at the end of their useful lives has not been such as would lead me to ascribe a value of any consequence to the lot. (Value comes from use, and who can find a use for a vacant lot in a forty- or fifty-year old residential district?) Naturally, this idea was with reference to a residential district which was zoned residential and which, as in the majority of cases, did not give any evidence of trend to or possibility of a higher or better use in the future.

Appraisers do, in many cases, unconsciously show accrued depreciation in land used for residential purposes. It is rare that a report written by a competent appraiser will show the value of the lot underlying a twenty-year old residential

property equal to the historic value of the site at the time of its original development. It is almost equally rare to see any provision for the continued accrual of this depreciation in the future.

This condition hardly manifests itself and certainly is not acute in the case of residential properties in the early stages of their useful lives or where there still continues to be desirable amenities attractive to prospective purchasers. However, the problem does become acute where residences are owned primarily for investment purposes; where they are approaching the end of their useful lives and ownership is desired only for investment purposes; or where appraisal reports must be rendered on stereotype forms—such as those of the Home Owners' Loan Corporation—which contain purported applicable income breakdowns. In the latter three cases, the almost inevitability of land depreciation coexistent with building depreciation makes a thoughtful appraiser toss in bed at night and mutter in his sleep.

This idea of land depreciation, in a lesser degree, also occurs in typical commercial properties and especially in the so-called "hot spots" of the downtown metropolitan commercial areas where a comparatively slight change in transportation routes, buying habits of district customers, or normal district trends can cause a tremendous depreciation (or appreciation) in land values. Of course, this condition can be reflected largely in the estimated trend of future earnings; however, it is significant to note that this reflection is shown in the *building*, except, possibly, in the case of the "land residual" method; but even then no provision is made for future land depreciation.

Neighborhood commercial properties generally show a tendency to decline in value consistent with the decline in the social grade and income levels of occupants in the contiguous residential areas, whose spending ability determines largely the volume of business done by the neighborhood stores. Here the decline in land values appears to be much slower than the decline in residential areas and consequently is less important; however, the idea of land depreciation continues to appear to have some weight, even in this latter case. I have yet to see a purely residential district where land did not suffer some depreciation from age. I have seen commercial locations where accrued depreciation, even after a considerable number of years, was so small as to be negligible. Even in these cases, however, I hesitate to capitalize land in perpetuity because seventy or eighty years is a long time in the life of a real property. A substantial masonry building will last 100 years, if properly maintained, but we all know that properties with useful lives a century long are rare in a metropolitan area. District mutation usually is the executioner who shortens life well below the century mark. District mutation is location, and location is land. Does land depreciate in value? I think it does in many cases. Our forefathers were inclined to assume that depreciation need not be charged against properties because land appreciation offsets building depreciation, and, hence, the value of the property could not decline. In many cases they went one step further and assumed that land appreciation was so substantial that their properties had continually increasing value. They liked to quote the Astor, the Vanderbilt, and other large fortunes of the nineteenth century, which were built up largely by land appreciation experienced during the time of rapid development of a new country caused largely by tremendous increases in population. It is my opinion that many purchasers of real property still have this thought in mind; however, informed appraisers know it is fallacious. Now, we must have substantial evidence before we assume increasing land values. We do, however, assume land values to be leveled into perpetuity. Is it not possible that our next step is to consider at least the possibility of land value depreciation? Such depreciation, if any, would be occasioned by

obsolescence or other economic factors. Naturally there can be no physical depreciation chargeable to urban land.

I feel sure that readers of the *Journal* would profit considerably from remarks anent this subject from the erudite M.A.I.s whose names shed such an effulgent light upon the roster of the Institute.

CURT C. MACK, M.A.I.

St. Louis, Missouri.

* * *

Simpson—ON THE COLUMBIA APPRAISAL COURSES

AS an employee in one of the largest tax offices in the country, I am deeply interested in any subject related to real estate. In Cuyahoga County, Ohio, our real estate tax values exceed $1,580,000,000, which constitutes no small tax roll. Indeed, our tax books contain about one-seventh of the taxable real estate in the state of Ohio.

At various times, practicing appraisers, in qualifying as experts in Court or before our Board of Revision, have given membership in the American Institute of Real Estate Appraisers as an indication of qualification. One case stands out in my mind—that of an appraiser who proudly recounted his record of completion of the Appraisal Courses at the University of Chicago. Unquestionably, the qualification carried weight and was impressive. With college graduates and college professors forming the brain trust to run our Federal Government, university training, even in appraising, takes on a new light.

Of course, the problem of the tax appraiser is different than that of the individual practitioner—and yet they are essentially the same. In appraising a county, city, or subdivision, one of the most important features is uniformity, and, without question, the Zangerle System of land appraising is one of the most nearly correct, scientific methods of standardized appraising for wholesale usage. In appraising buildings, of course, no factors are possible for universal application. One structure in a small city or village may vary from 25 to 50 per cent in cost as compared with a similar building in a large city. Unit costs cannot be accurately fixed without considerable classification of type, size, and modification for deviation from standards and types. Giving effect to depreciation makes an opening to choose one of many methods in writing off a building over its "useful life"—"useful life" being only an estimate reflecting the opinion of the appraiser. In his book, *Principles of Real Estate Appraising*, John A. Zangerle very clearly outlines the system in use in Cuyahoga County, and his treatise on the subject is so well handled that the book is used as text material in a number of schools and universities. In addition, many tax assessors have adopted the Zangerle methods and find them most satisfactory.

In spite of utilizing scientific appraising methods and in spite of almost 100 per cent uniformity in tax values, we still have complaints on valuations and petitions for reductions in values. Generally, we can support our case, although sometimes this means a hearing before the State Tax Commission or before the Courts. Across the table from us, contending ferociously for a reduction, is the practicing appraiser—sometimes an M. A. I.

One thing on which I wish to comment at this point is that not infrequently such an appraiser has a stipulated fee of so upon the outcome of the heating. Such an much and an additional fee contingent arrangement is contrary to the Rules of Professional Ethics of the Institute. It is, of course, unethical for an appraiser to testify where he has financial reason to be biased. We attempt in every such case to bring to light the fact that such an unethical arrangement exists and to use this point as an offset to accepting, at face value, testimony of an expert who would stand to benefit from coloring his opinion.

Considering the fact that our opinions are not infrequently at odds with those of

the practicing private appraiser, I resolved to tackle the appraisal problem from the other side of the table. What factors constitute value in the opinion of the private practitioner? How much science does he use, and how often are his estimates based upon haphazard opinion? With these questions in mind and a determination to use the Institute's short courses at Columbia University as a groundwork upon which to build a better general knowledge of private appraising through continued study, my application for enrollment was forwarded to Harry Grant Atkinson of the Headquarters Office of the Institute in Chicago. On June seventh, I was again a student carrying a portfolio and taking notes at three and four lectures per day.

The student body was without question a select group. It consisted of real estate salesmen; managers of real estate departments of banks and insurance companies; sales managers, property managers, presidents, vice presidents, secretaries, and treasurers of real estate firms; practicing appraisers; brokers; field inspectors; accountants; accounting instructors; municipal tax assessors and deputies; H. O. L. C. and F. H. A. appraisers; draftsmen; one cashier; one attorney; and one Major Q. M. C. of the U. S. Army—a total enrollment of ninety-six students (Appraisal I). The ages of the students ranged from twenty-five years to sixty-five, the typical age being about forty.

The instructors for Appraisal I were nationally known authorities on real estate. They were:

George L. Schmutz (Dean), Los Angeles, California.
Dr. Thurston H. Ross, Los Angeles, California.
Frank D. Hall, New York City.

These three were ably assisted by Harry Grant Atkinson, Educational and Administrative Director, and several New York members of the Institute. Both Mr. Schmutz and Dr. Ross have done much writing and pioneering in the field of appraising, and Mr. Hall is at the head of the appraisal division of one of the largest insurance companies.

That appraisals are hinged to a great extent on opinion was brought out in the text material and lectures and was further demonstrated—if you please—by not infrequent contradictions as between statements made by the instructors themselves. This line is not intended as criticism; instead, I credit them for having opinions of their own even though they be in conflict with those of a fellow instructor. Too often, in academic pursuits, an instructor molds his opinion to conform with those around him rather than to sustain the courage of his convictions.

The course began not unlike a freshman college course in economics, for, of course, the science of economics must be reckoned with in the determination of value. One lecture period was devoted to the causes of value and furnished much information of importance in our laboratory case work. Much time was given to emphasizing the importance of collecting proper data relative to the site, the neighborhood, and the city. Gradually — and yet with amazing speed—we began to comprehend the different influences affecting value, the things to be given consideration, and the items to stress in our final report. Too, we were learning how to properly dress up an appraisal report "seemingly to justify our $100 charge."

This course does not turn out a "finished appraiser"—it is not so intended. It does give any real estate man new and worthwhile ideas which can be followed up to advantage. In such a short period and under the stress of such concentrated study, no one can completely assimilate the material covered.

Among some of the subjects discussed at length were: Architectural Styles and Modes and Their Effect on Values; The Law of Diminishing Returns; Proper Treatment of Surplus Income; Building Improvements; Balanced, Over-, and Under-Improvement; The Reproduction Cost Approach; The Comparative Approach; The Effect of Conformity or Lack of It; The Income Capitalization Approach;

Land and Building Residual Methods; etc. The evening question periods which gave students an opportunity to quiz instructors were especially beneficial—points which had not been brought out perfectly in the lectures were clarified.

Books were available in the library for reference work, but few indeed were they who could cover the assigned work and have any excess time for additional reading. Practically every hour was, of necessity, utilized in keeping up to schedule in order to be in condition for the two examinations to be given.

I must not pass up making a few comments on the Case-Study Work which was required. Each student was assigned a property and informed that he must prepare an appraisal of said property. Arrangements had been made to permit proper inspection of the respective properties, both inside and out. Two afternoons were devoted to collecting the data and to the physical inspection of the properties. This case work in connection with our text material gave us a practical opportunity to apply our knowledge. I believe each student took especial pride in his appraisal, and I venture to say that in actual practice few appraisals are given the determined effort applied to these.

Having taken this course, what are my reactions to it? Shortly after returning home from attending Appraisal I, I received a letter from the Institute reporting on my grades for the course—for the two examinations and the appraisal report—and my ten-year old daughter (who is always quite concerned about her own report card) informed me that I did "fine" and that I was a "good student." I, too, felt that I had done fine—not so much because of the grades I had received nor because of what I had absorbed at Columbia (though I value the latter) but because of the thought channels opened by the course. I now have several very definite subjects relative to real estate values of which I intend to learn more—through reading and studying. I am approaching a better understanding of the problem of the private appraiser and of the prescribed and proper methods he uses or should use in valuing real estate.

So I value the course and recommend it, not so much because it is instructive but because it is thought provocative. Any subject which furnishes mere facts without provoking further thought is of little value, but a course which reveals doors hitherto unexplored by one and furnishes the urge to "carry on" is filling a genuine need and serves a real purpose.

In addition, in controversy with the private appraiser in the Courts or "across the table" at the Board of Revision, who knows when in the future one of the theories expounded by George Schmutz or Dr. Ross may be just the thing needed to sustain the value placed thereon by the tax assessor. In any case, I consider the time at Columbia as very well spent!

CLARK L. SIMPSON, C. P. A.
Cleveland, Ohio.

The Appraisal Docket

Cases, decisions, and other matters involving rulings and precedents affecting real estate and valuation.

William Wilson, Editor

THE PLIGHT OF DELPHI

PERHAPS the chief stock in trade of our profession, and one the use of which has given many of us secret pleasure, has been the assumption of prescience which arises from judicial employment of the principle of *stare decisis* (to stand by decided matters). Oftentimes, however, the use of this omniscient device is fraught with danger, for the Courts are quite apt in the manufacturing of sophistical and tenuous distinctions, swayed as they are by the equities of the individual case. The lawyer must be alert to recognize this situation and to distinguish the distinctions when such possess no logical correlation to the principle from which they spring. Nowhere is this more true than in the field of judicial recognition and adoption of real estate appraisal methods. Then do two unknowns meet and make the oracle stutter!

* * *

MARKET VALUE

Rare indeed is the case—and perhaps because of its rarity is held to be, among the Courts and appraisers alike, the most desirable—that affords us an almost irrebuttable proof of value: "free" sales of the identical or similar property. Sales do occur, but they are oftentimes given no great weight due to some characteristic which deprives them of their probative value. For example, in the case of *City of Mt. Olive* v. *Braje,* 366 Ill. 132, 7 N.E. (2d) 851 (1937), evidence was given of a conveyance made in satisfaction of prior obligations. The Court, in holding that such evidence should not have been admitted, stated at page 854:

> "A sale made as a compromise or in settlement of a prior debt, is not a fair criterion of value, because it may be that the party taking the property in payment has no option to refuse. He may be obliged to elect between that course and the uncertainty and trouble of legal proceedings."

So also, a purchase of property at a receiver's sale, while admitted in evidence, was given but passing consideration. *Alfred J. Sweet* v. *Auburn,* 134 Me. 28, 180 A. 803, 104 A.L.R. 784 (1935). The Court proceeded on the theory that such sale, which occurred in the depths of a depression when it was difficult to find purchasers for large properties, such as the one in question, was scarcely voluntary. A similar line of reasoning was employed *In re Premises, 255-57 South Fifteenth Street,* —— Pa. ——, 192 A. 923 (1937). The owner who protested a taxable assessment of $42,900 sought to show that he had purchased the property for $22,500 at a partition sale which had been confirmed by court order. It was held that such sale was in the "forced" class and that its confirmation was not an adjudication of "actual value." The evidence, while admitted, was not sufficient to overcome the *prima facie* case afforded by the assessment record. The Court went so far as to signify that since the payment was made outright in cash, such characteristic detracted from the "actual value" of the property!

* * *

JUDICIAL PREFERENCES IN VALUATION METHODS

At this point Delphi is silent. There is no coherence of thought, no logical correlation of ideas, which the Courts adopt or develop. Each case involving the judicial ascertainment of real estate values is firstly characterized by the type of case concerned, viz: taxation, condemnation, bankruptcy, or mortgage foreclosure, to name a few; and secondly dependent upon the Courts' predetermined equities as between the litigants. The eminent Editor-in-Chief of the *Journal,* with a

view to poking up the coals among which we found ourselves, in the company of certain learned robots blissfully searching for chestnuts, and anticipating our dilemma, has with apparent malice aforethought mentioned to us the case of *Great Northern Ry. Co.* v. *Weeks,* 297 U. S. 135 (1936), wherein that great Court, after the view of the majority had been determined, platitudinously and safely expounded at page 139:

"The principles governing the ascertaining of value for the purposes of taxation, are the same as those that control in condemnation cases, confiscation cases and generally in controversies involving the ascertainment of just compensation."

But such a situation, while ideal, does not obtain in practice. We are afforded an illustration from our own bailiwick wherein the Court, while in both instances it approved the method of the capitalization of net income, condemned the use of future income as a basis of capitalization in *First National Bank* v. *Bryn Mawr Bldg. Corp.,* 365 Ill. 409, 6 N. E. (2d) 654 (1937) (mortgage foreclosure; low value desired by the Court), whereas it had but two years previously done that which was condemned. *People* v. *Chicago Union Lime Co.,* 361 Ill. 304, 198 N. E. 1 (1935) (taxation; high value desired by the Court).

* * *

SOME EXAMPLES OF JUDICIAL PREFERENCES IN VALUATION METHODS

The case of *Somers* v. *Meriden,* 119 Conn. 5, 174 A. 184, 95 A. L. R. 434 (1934), involved an attack upon the assessed valuation by the plaintiff-taxpayer of a business property leased for fifteen years. The plaintiff advocated the method of capitalizing at 6 per cent the net income-producing capacity of the property. The Court held that the actual income was in the instant case the best proof of the income-producing capacity and proceeded to calculate the value of the property by capitalizing at 10 per cent the *gross* income of the property for the preceding three-year period. It defended itself as follows (page 186):

"The plaintiff claimed and asked the Court to find that he was entitled to a net return of 10 per cent., but this was manifestly excessive (the author: note the Jehovah complex). . . . It was open to the trial Court to conclude that the percentage adopted (10) was sufficient to cover legitimate deductions and a fair net return to the owner, and to regard the result of capitalization on that basis as, although not the sole, a very important consideration in arriving at value."

However, in the case of *Alfred J. Sweet* v. *Auburn, supra,* the income from the building immediately preceding the trial of the cause was shown to be less than its expense. But the property, a shoe factory, was well constructed—in fact, it was conceded by both parties to be much better built than the average, the contemporaneous trend being to operate shoe factories in much less substantial buildings. The Court disregarded the income factor and sustained an assessment of $191,000 based upon the reproduction cost of the improvements less depreciation. The fact that the property was purchased for $100,000 at a recent receiver's sale was of small moment to the Court. Yet in the case of *In re Pittsburgh Hotels Corporation,* 17 F. Supp. 949 (1936) (D. C., W. D. Pa.), which involved the determination of the value of a 1400-room hotel in proceedings under 77-B of the Bankruptcy Act, the Court, while it recognized the soundness of adopting the two methods of approach preferred the lower value (capitalization of net income) rather than the higher value (reproduction cost less depreciation) and found the debtor insolvent. The reproduction cost less depreciation was said not to be the equivalent of market value.

Again, to illustrate our theorem that the Courts prefer that method of appraisement which will best conform to their prejudged determination of the result, the case of *Butler* v. *City of Des Moines,* 219 Ia. 956, 258 N. W. 755, (1935), is almost ludicrously transparent. At page 757 this pontifical statement is made:

"Moreover, the plaintiff himself and at least some of his witnesses in their examination indicated that they were determining values by capitalizing the rental income; particularly, the ground floor income. Such a basis of estimating values for taxing purposes naturally impairs the force of their opinion. Under the statute (Code 1931, 7109), income is not the only factor to be considered in determining value."

These decisions show that while there are numerous places for many types of people in the field of judicial appraisement, there is no place for robots. Our robotian reference herein is to the latest imaginative science: the single "true" method of real estate valuation reached by capitalization of a hypothetical net income.

* * *

OVER-IMPROVEMENT OF LAND

An interesting example of the over-improvement of land for subdivision purposes and the resulting effect on valuation arose in the case of *Kentucky Joint Stock Land Bank* v. *Jewett,* —— Ohio St. ——, 9 N. E. (2d) 915 (1937). The plaintiff mortgagee there sought to set aside an assessment on the mortgaged land made to sustain the cost of building a roadway thereon. In anticipation of the collection of the assessment, the county had issued bonds which were in the hands of holders for value. The court, taking the estimates of value most strongly against plaintiff's claim, found that the value added to the land by the improvement was only $5,410.50, while the

cost of such improvement was $30,655.77. The Court refused to set aside the assessment but enjoined its collection over $5,410.50 on the ground that to permit the enforcement of the excess would be confiscatory.

* * *

THE EXPERT WITNESS AND HIS FEES

The case of *Hesse* v. *Diehl,* 279 Mich. 168, 271 N. W. 721 (1937), affords us an interpretation of a type of statute which perhaps may be copied by many legis'atures in the attempt to equalize the cost of justice: that expert witness fees shall be no larger than those given ordinary witnesses, except in the discretion of the trial court. In the instant case defendant engaged plaintiff to make a study of his property, which was the subject of imminent condemnation proceedings, and to testify for defendant therein. Plaintiff, after twenty-two and one-half days of examination and analysis, became convinced that the property was not worth as much as the defendant wanted to show at the trial; so defendant discharged plaintiff, did not call him as a witness, and refused to pay his fees. This suit followed, the defense to which was a Michigan statute whose main purport was that as set forth above. The Court held that such a statute was not applicable to preliminary services and awarded plaintiff his original claim of $250. The Court, in rejecting plaintiff's amended *ad damnum* ($2,000) remarked at page 722:

> "However, the fact that plaintiff, claiming to be an expert with a knowledge of values, required 22½ days in order to determine the value of a single piece of land in the city of Mt. Clemens, seems to be a reflection upon his qualifications as an expert and the value of his services."

What to Read

Comments on recent surveys, books, and articles of interest to real estate appraisers.

C. M. Jones, Editor — **Librarian, American Institute of Real Estate Appraisers**

Book Review

Kurtz, Edwin B. THE SCIENCE OF VALUATION AND DEPRECIATION. *New York, The Ronald Press Company, 1937. 221 pp., $4.50.*

DESERVING careful scrutiny by the appraiser, the basic findings presented by Dr. Kurtz are intended to furnish "a common background to all views . . . the beginning of all sound thinking in this field."

Despite its title, the appraiser will find this book not a general text on valuation. It does not treat the general problems of depreciation as the real estate appraiser would expect. It devotes practically no space to concepts or definitions of value, approaches to value, or methods of depreciation. It touches on real property depreciation only by inference. Yet the real estate appraiser who is enough of a student to recognize the magnitude of the problem of depreciation will find in these pages much meat for thought, an ingenious viewpoint, and a painstakingly thorough and constructive work.

Dr. Kurtz is Professor and Head of the Electrical Engineering Department of the State University of Iowa and a Fellow of the American Institute of Electrical Engineers and the American Association for the Advancement of Science. His pioneer book on this subject, entitled "Life Expectancy of Physical Property" (The Ronald Press Company, 1930), presented "the mortality laws of physical property without regard to possible commercial application." The current publication follows the logical sequence of applying such laws to a number of industrial and utility property types.

Not satisfied with most average life figures used in valuation and accounting practice nor with two shortcomings of the conventional "straight-line method" when based upon such so-called "average life values," the author draws from the life insurance field the idea of the life experience table as based upon the study of records of a large number of units and the application of statistical probabilities. By such tables and curves drawn therefrom, showing not only average life but also probable life, life expectancy, age, distributions, and renewals, a more scientific picture of property life is made available as a base for calculation of depreciation and value.

Other chapters cover Service Life, Annual Renewals, Composite Remainder Service Life, Replacement Insurance, and Replacement Insurance Reserves. These principles are applied to a number of properties and to various type curves of survivor and replacement data. The appendix contains sixty-five life characteristic charts for utility and railroad properties.

The book is written in a direct, clear style. Application of all principles are illustrated with detailed equations and abundant charts and tables.

The application of the statistical approach of life tables is of doubtful application to real property. Location and other influences becloud the data and frustrate adequate measurement. (This is recognized by the author—page 90—who also emphasizes the importance of the appraiser's judgment and observation.) But the principles set forth are to be recognized as fundamental and may, under careful analysis and study, result in contributions to the theory of real property depreciation and value. By inference, the concept of composite remainder service life may be a challenge to the conventional application of straight-line depreciation.

Though the length of this review may not present adequate comments on the full merits of the work, because most of us are interested primarily in real property, yet there are many members of the Institute active in valuation of industrial and utility properties who will find this book of special interest and will recognize the value of the contribution toward the development of a more scientific concept of depreciation.

MORRIS B. ASHTON.

Chicago, Illinois.

New Articles

"DEFICIENCY JUDGMENTS," by George L. Allin.

Courts have shown much confusion in arriving at the fair market value for fixing deficiency judgments. Some loans are admittedly made on the good faith and the financial responsibility of the borrower and others only on the security of the mortgaged property. If everybody believes at the time the mortgage is made that the property is worth the amount of the mortgage, then afterwards it could be determined how much, if any, loss of value there has been since that time by working out a reasonable depreciation rate. This may be one way to solve the problem. *Westchester. May, 1937, p. 10. $0.45.*

* * *

"APPRAISING THE DUPLEX OR GROUP HOUSE," by Major E. H. Boeckh.

With a rising construction cost market, ways to cut costs must be found. A modern single-family home is a very complex manufacturing process and, if best materials are used, is expensive. The row house lends itself very nicely to low cost construction due to the fact that less material is used. This article tells of such a development in Upper Darby, Pennsylvania. Each house is thirty-seven feet wide by nineteen feet deep, placed in the center of a lot with a seventy-six-foot depth. Complete base price tables are given, including specifications, base price per cubic foot of contents, and corrective factors for structural deviations. *American Building Association News. August, 1937, p. 452. $0.55.*

* * *

"SOME UNSOLVED PROBLEMS IN REGULATION OF RAILROAD DEPRECIATION ACCOUNTING," by Harold D. Koontz.

Here is a highly technical survey of the depreciation accounting plan as developed by the Interstate Commerce Commission. There are many difficult problems yet to be solved, some of which are illustrated. The Commission has contributed to the understanding of depreciation accounting and is doing good work in bringing about a more accurate statement of assets and expense in the country's largest industry "affected with the public interest." Some of the phases discussed include: "Depreciation Reserve Accounting," "Cooperation of Railroad Management," "The Problem of Railroad Revenues," "Depreciation Accounting and the Future," etc. *The Journal of Land & Public Utility Economics. August, 1937, p. 273. $1.45.*

"APPRAISING APARTMENT HOUSES," by M. C. O'Brien.

Absolute appraisals are practically impossible because of variations in types of construction, arrangement and size of rooms, labor costs, rental conditions, and other factors that influence values. The three methods of arriving at the value are taken up and specific examples given to illustrate. A complete appraisal of a four-story apartment house with all the data is also included. *Brooklyn Realty Magazine. June, 1937, p. 8 $0.50.*

* * *

"DETERIORATION EXCEEDS FIRE 10 TO 1 AS HAZARD TO VALUE OF EXISTING BUILDINGS."

Mr. Clyde A. Mann, Managing Director of the Certified Building Registry of the United States, declares that excessive deterioration—not fire, as many persons believe—is the biggest hazard affecting buildings. In 1936, 1.1 per cent of the total value of buildings was lost by fire. Mr. Mann further states that with the "jazz" age came "jazz" building, with poor materials. A house that falls to pieces at the end of ten years involves a 10 per cent yearly deterioration. Buildings will survive for centuries if constructed properly and with good materials. *The Economist. August 21, 1937, p. 6. $0.35.*

* * *

"NEW CONSTRUCTION METHOD GETS FIRST TEST ON RESIDENTIAL JOB."

A ten-room residence is being built near Michigan City, Indiana. It is attracting attention because of its unique method of construction. The frame is of steel and the walls are of stucco over metal lath. This is the first residence to be constructed on this principle, known as "Lurie construction," according to Metal Lath Manufacturers Association. There are many special advantages of this type, among them: sturdier, more durable, fireproof, proof against destruction by tornado, earthquake, or explosion, cracks in walls unlikely, upkeep costs low, and many others. Read the complete description in *The Economist. September 18, 1937, p. 10. $0.35.*

* * *

"38 PEARL STREET, N. Y. C."

This modern, six-story office building, constructed in 1929, is a good illustration of the degree to which *use* is the determining factor of real estate values. Although the reproduction cost of the building is figured at $165,000, this has no bearing on the economic worth and must be written down to $55,000 and the land to $60,000. Because of the long-established character of the neighborhood, the property yielded not much more than the old buildings adjacent to it. *Freehold. July 15, 1937, p. 62. $0.30.*

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James G. Stafford (54).....5820 Presley Way
Pasadena
Louis M. Pratt (411) .....164 N. Hudson Ave.
Sacramento
Mark Cheesman (189) .....2964 Govan Way
A. J. Delano (126).....809 J St.
Thomas G. Mapel (367).....809 J St.
San Diego
Lottie L. Crawford (568).....923 Seventh Ave.
Victor R. Lundy (532).....923 Seventh Ave.
San Francisco
W. G. Harris (430).....315 Montgomery St.
George I. Noyes (295).....821 Market St.
Edwin G. Wendland (342).....821 Market St., Room 562
San Gabriel
Frank C. Wood, Jr. (326).....420 Segovia Ave.
Southgate
Louis R. Ardouin (205).....2931 Willow Place
Wilmington
Thomas Francis Mason (151).....Box 122

COLORADO

Denver
Arthur D. Wall (519).....813 Majestic Bldg.

CONNECTICUT

Darien
G. LeRoy Kemp (533).....179 Boston Post Road
Forestville
Thomas N. Ryan (554 .....Pleasant Ave.
Hartford
Joseph P. Kennedy (24).....720 Main St.
Aubrey Maddock (507).....50 State St.
H. Martin Tenney (534).....140 Garden St.
New Britain
William G. Dunn (535).....272 Main St.
New Haven
George B. Horan (275).....151 Court St.
Wm. M. Hotchkiss (436).....205 Church St.
Charles T. Lincoln (265).....205 Church St.
Stamford
Richard W. Fitch (231).....292 Main St.
Waterbury
John M. Hutchinson (500).....195 North Main St.

DISTRICT OF COLUMBIA

Washington
Harold E. Doyle (82).....738 15th St., N. W.
Joseph A. Herbert, Jr. (69).....515 E. Capitol St.
A. C. Houghton (72).....909 15th St., N. W.
Morton J. Luchs (178).....1505 H St., N. W.
F. Eliot Middleton (280).....Investment Bldg.
Charles H. Tompkins (337).....1630 Connecticut Ave.
Curtis Walker (196).....Tower Bldg.

Members in Government Service:

Frederick M. Babcock (435).....
.....Federal Housing Administration
Wm. D. Burkheimer (309) .....
.....(FHA) 3726 Connecticut Ave., N. W.
Fred L. Chapman (411).Federal Housing Administration
Warren S. Dean (313).....(HOLC) 1619 R St.
Leonard Downie (296).....HOLC Bldg.
Ayers J. duBois (107).....Federal Housing Adm.
J. W. Graham (83).....(FHA) Vermont and K St.
Isidoro Quintana (73)..Federal Housing Administration
John J. Savage (536).....6th Floor, F.H.A. Building

FLORIDA

Fort Myers
Harry J. Wood (187).....1112 1st St.
Jacksonville
V. M. Covington (48).....1316 Graham Bldg.
Louis R. Fendig (44).....28 Buckman Bldg.
Myron L. Howard (78).....516 Professional Bldg.
J. Alvin Register (4).....114 Graham Bldg.
Bainbridge Richardson (59).....117 W. Forsyth St.
Walter D. Shelly (217).....414 Greenleaf Bldg.
L. K. Tucker, Jr. (150).....319 W. Forsyth St.
Lakeland
Ernest Stephen Allsopp (517).....Marble Arcade
John L. Wright (243).....117 S. Tenn. Ave.
Miami
Hollis Bush (98).....P. O. Box 1030
Kenneth S. Keyes (115).....17 W. Flagler St.
Adrian McCune (74).....1212 Security Bldg.
D. Earl Wilson (80).....1212 Security Bldg.
Orlando
George F. Brass (160).....P. O. Box 1052
Harold V. Condict (161).....Box 1052
C. W. Rex (42).....Box 293
J. C. Stewart (166).....112 N. Orange Ave.
Sarasota
Fred L. Palmer (127).....482 Main St.
St. Petersburg
John B. Green (308).....11 4th St., N.
Warren P. Hunnicutt (338).....302 Central Ave.
Tampa
Charles P. Glover (139).....811 Citrus Exchange Bldg.
Vero Beach
Frank R. Jewett (143).....P. O. Box Q
West Palm Beach
Frank J. Anderson (223).....611 Harvey Bldg.

GEORGIA

Atlanta
Bryan M. Grant (147).....206 Grant Bldg.
Robert R. Otis (256).....15 Auburn Ave.
Geo. P. Williams (387).....Regional Office, H. O. L. C.

TERRITORY OF HAWAII

Honolulu
Charles J. Pietsch (417).....927 Fort St.

ILLINOIS

Calumet City
George N. Becker (245).....138 Pulaski Rd.

Chicago
Graham Aldis (365).....53 W. Jackson Blvd.
Louis B. Beardslee (405).....100 N. LaSalle St.
George Becker (518).....11 S. LaSalle St.
Kenneth Calhoun Brown (210).....110 S. Dearborn St.
O. P. Curran, Jr. (569).....4545 Broadway
Harry S. Cutmore (194).....1411 1st Natl. Bk. Bldg.
Dominick Dunn (370).....1330 Morse Ave.
Newton C. Farr (400).....140 S. Dearborn St.
Fred F. Gardner (530).....134 S. LaSalle St.
Harry Goldstine (350).....134 N. LaSalle St.
Arthur B. Hall (403).....407 S. Dearborn St.
John P. Hooker (52).....140 S. Dearborn St.
A. K. Hornof (173).....1411 1st Natl. Bank Bldg.
Ward T. Huston (209).....110 S. Dearborn St.
Isaac Keim (324).....2526 S. Wabash Ave.
Arthur Kruggel (341).....4865 Broadway
Walter R. Kuehnle (124).....140 S. Dearborn St.
J. Alton Lauren (442).....22 W. Monroe St.
Mark Levy (9).....22 W. Monroe St.
Paul C. Loeber (399).....111 W. Washington St.
Ernest H. Lyons (195).....120 S. LaSalle St.
William C. McLennan (414)....6675 Northwest Highway
Francis E. Manierre (402).....5 S. Wabash Ave.
Orlo O. Montague (514).....1019 First Natl. Bk. Bldg.
Donald T. Morrison (382).....100 North LaSalle St
William E. Mosby (297).....8032 Cottage Grove Ave.
Hyde W. Perce (406).....40 N. Dearborn St.
Lester W. Porter (407).....231 S. LaSalle St.
Geo. R. Quin (191).....36 S. State St.
Gilbert H. Scribner (401).....1st Natl. Bk. Bldg.
Henry George Slavik (301).....10 S. LaSalle St.
John Milton Trainer (404).....30 N. Michigan Ave.
Percy E. Wagner (318).....F.H.A., 134 N. LaSalle St.
Herman O. Walther (363).....111 S. Dearborn St.
J. Soule Warterfield (120).....8 S. Dearborn St.
Albert H. Wetten (408).....141 W. Jackson Blvd.

Galesburg
Ralph V. Field (168).....203 Bk. of Galesburg Bldg.

Joliet
William W. Mollan (288).....405 D'Arcy Bldg.

Peoria
James H. Finnegan (428).....415 Peoria Life Bldg.

Waukegan
Leo Dailey (388).....2 S. County St.
Oscar Soderquist (125).....22 Maple Ave.

INDIANA

East Chicago
Leonard C. Smith (440).....4534 Indianapolis Blvd.

Fort Wayne
Claude L. Baker (129).....R. F. D. No. 2

Gary
Charles D. Davidson (244).....504 Broadway
J. R. Davidson (123).....504 Broadway

Hammond
Samuel C. Ennis (203).....1st Trust Bldg.

Indianapolis
George A. Kuhn (35).....706 Guaranty Bldg.
Frank B. McKibbin (96).....1154 Consolidated Bldg.
John W. Roberts (448).....428 Illinois Bldg.

South Bend
Richard A. Muessel (537).....205 Income Bldg.

IOWA

Cedar Rapids
John J. Wagner (266).....408 American Trust Bldg.

Des Moines
Arthur S. Kirk (188).....900 Grand Ave.

Sioux City
Willard L. Frost (21).....Security Bank Bldg.

KANSAS

Hutchinson
J. C. McNaghten (116).....1st Natl. Bk. Bldg.

Topeka
E. H. Bideau.....Care of H.O.L.C., New England Bldg.
David Neiswanger (426).....115 W. 6th Ave.

Wichita
Ralph D. Nixon (555).....144 N. Rutan Ave.

KENTUCKY

Louisville
I. Sidney Jenkins (334).....Box 1619
Paul F. Semonin, Sr. (359).....321 Starks Bldg.

LOUISIANA

New Orleans
Max J. Derbes (560).....823 Perdido St.
E. Holland Johnson (558).....811 Perdido St.
J. Burrows Johnson (559).....339 Carondelet St.

Shreveport
T. S. Neal (224).....330 Ricou-Brewster Bldg.
R. S. Whitten (351).....210 Milam St.

MARYLAND

Baltimore
Oregon Milton Dennis (132)....211 New Amsterdam Bldg.
W. E. Ferguson (47).....100 E. Pleasant St.
Harry E. Gilbert (18).....2 E. Lexington St.
Albert C. Hofrichter (162).....2 E. Lexington St.
John E. McGovern (316).....H.O.L.C., Equitable Bldg.
Harry U. Riepe, Jr. (570).....25 East Fayette St.
Chas. H. Steffey (88).....336 N. Charles St.
Carroll Wright (314).....Baltimore Trust Bldg.

MASSACHUSETTS

Boston
W. H. Ballard (41).....45 Milk St.
Arthur B. Brooks (509).....40 Central Street
Edwin Deering Brooks (510).....18 Tremont St.
Edward F. Cassell (122).....18 Tremont St.
Walter Channing (571).....50 Congress St
George L. DeBlois (505).....11 Pemberton Square
Norman W. Kenny (10).....82 Devonshire St.
John C. Kiley (397).....45 Bromfield St.
Arthur N. Maddison (504).....11 Pemberton Square
Robert C. Nordblom (336).....18 Oliver St.
George S. Parker (502).....87 Milk St.
Stephen W. Sleeper (508).....31 Milk St.
Robert S. Wayland (506).....10 State St.
Parker Webb (538).....24 Milk St.

Brockton
Charles H. McKenney, Jr. (428).....106 Maine St.

Fall River
J. Frederick Beckett (167).....49 Purchase St.
Myer Markell (165).....160 Bank St
Everett N. Slade (53).....57 N. Main St.

Lowell
John C. Percival (233).....36 John St.

Springfield
Henry M. Clark (287).....100 Broadway
Bion T. Wheeler (339).....1562 Main St.

Worcester
Francis S. Bailey (524).....2 Foster St.
F. Everett Cole (556).....5 Pleasant St.
Charles A. Kabley (501).....340 Main St.
Maurice F. Reidy (8).....2 Foster St.

MICHIGAN

Detroit
Judson Bradway (392).....533 Majestic Bldg.
Matthew Carey (389).....2149 Union Guardian Bldg.
George W. Drennan (358).....617 Penobscot Bldg.
Guy S. Greene (394).....300 Lafayette Blvd.
Donald D. James (539).....700 Penobscot Bldg.
Henry N. Johnson (390).....300 Penobscot Bldg.
Albert D. MacRae (540).....Union Guardian Bldg.
Alfred W. Palmer (312).....1920 Union Guardian Bldg.
Edmund T. Paterson (385).....3050 E. Grand Blvd.
Leonard P. Reaume (393).....2150 Buhl Bldg.
George C. Sexauer (395).....2150 Buhl Bldg.
William W. Tanney (434).....9061 W. Outer Drive
Clarence S. Vaughn (422)..2103 First National Bank Bldg.
Carl S. Wells (391).....2706 Eaton Tower

Grand Rapids
J. G. Lloyd Alexander (246).....616 Murray Bldg.
Isaac Blandford (234).....105 Federal Square Bldg.
Leon T. Closterhouse (247).....
.....American Home Security Bank
John Garfield Emery (304).....400 Central Bank Bldg.
Harry J. Fuller (235).....The Michigan Trust Co.
Walter S. Palmer (193).....104 Federal Square Bldg.
Arent Van Stensel (248)...1006 G. R. Savings Bank Bldg.
Charles H. Warden (229).....535 Michigan Trust Bldg.

Jackson
Henry H. Lammers (557).....508 Dwight Bldg.
Lansing
Edward G. Hacker (291).....219 W. Washtenaw St.
Pontiac
Paul A. Kern (134).....31 Oakland Ave.

MINNESOTA

Duluth
Richard W. Northup (379).....17 Phoenix Bldg.
Minneapolis
Fred L. Chapman (411).....115 S. 5th St.
Norman L. Newhall (32).....519 Marquette Ave.
Edwin L. Somerville (30).....519 Metropolitan Bank Bldg.
J. Frederick Sutherland (331).....131 S. Seventh St.
St. Paul
David L. Montonna (416).....First National Bank Bldg.

MISSISSIPPI

Jackson
J. O. Manning (299).....3012 N. State St.

MISSOURI

Clayton
Gunther Meier (319).....18 N. Meramec
Joplin
Rolla E. Stephens (264).....711 Virginia Ave.
Kansas City
George M. Bliss (360).....17 E. 10th St.
C. F. Curry (345).....921 Baltimore Ave.
Herbert B. Patt (553).....417 R. A. Long Bldg.
E. F. Pierson (289).....811 Commerce Bldg.
St. Louis
W. C. Bernard (91).....317 N. 11th St.
William W. Butts (93).....803 Chestnut St.
Herbert O. Byrd (302).....818 Chestnut St.
Charles J. Daly (94).....801 Chestnut St.
Otto J. Dickmann (225).....623 Chestnut St.
Chester A. Dougherty (249).....109 N. 7th St.
J. Gregory Driscoll (528).....1501 Locust St.
John H. Farish (201).....713 Chestnut St.
Grover Godwin (418).....
.....314 Old Custom House, 8th & Olive Sts.
Joseph W. Hannauer (15).....811 Chestnut St.
Alfred B. Kissack (525).....915 Olive St.
Curt C. Mack (449).....714 Chestnut St.
Monroe H. Rodemyer (218).....109 N. 8th St.
N. S. Wood (131).....709 Chestnut St.

NEBRASKA

Lincoln
C. C. Kimball (381).....228 Stuart Bldg.
Omaha
Lewis C. Sholes (23).....U. S. National Bank Bldg.
Clinton B. Stuht (33).....Aquila Court Bldg.

NEW JERSEY

Atlantic City
Maurice A. Kelley (325).....20 S. Tennessee Ave.
Butler
Frank B. Fay, Jr. (171).....Fayson Lake
Camden
Ralph D. Baker (60).....924 Broadway
W. W. Chalmers (63).....4th & Federal Sts.
J. William Markeim (86).....4th & Federal Sts.
Abraham J. Rosenfeld (213).....114 N. Broadway
Leon E. Todd (340).....2623 Westfield Ave.
Philip Zinman (95).....643 Market St.
East Orange
Frank H. Taylor (6).....520 Main St.
Harry A. Taylor (108).....520 Main St.
Elizabeth
John K. Leeds (99).....286 N. Broad St.
B. B. Miller (58).....215 Broad St.
Burton Thompson (43).....18 W. Jersey
Max Tieger (112).....207 Broad St.
Jersey City
Percy A. Gaddis (22).....30 Journal Square Bldg.
D. E. C. Somers (175).....700 Bergen Ave.
R. E. Thompson (419).....Centl. R. R. of N. J. Term.
Linden
John Fedor (65).....540 S. Wood Ave.
Maplewood
Gilbert N. Swett (561).....Depot Plaza
Newark
Murray Apfelbaum (38).....786 Broad St.
John J. Berry (56).....982 Broad St.
George E. Dugan (236).....18 Washington Place
Charles F. Evans (572).....187 Market St.
Jos. L. Feibleman (66).....17 Academy St.
George Goldstein (413).....972 Broad St.
Franklin Hannoch (49).....14 Park Place
Louis Herman (70).....60 Park Place
Charles Frederick Kraemer (366).....776 Broad St.
Rudolph Kruger (516).....11 Hill St.
John A. Linnett (85).....46 Clinton St.
E. J. Maier (75).....187 Market St.
J. K. Powell (77).....1060 Broad St.
Joel L. Schlesinger (87).....31 Clinton St.
Harry J. Stevens (200).....478 Central Ave.
New Brunswick
Jas. A. O'Connell (186).....392 George St.
Newton
A. N. Lockwood (433).....17 Main St.
Ocean City
Elmer Jackson Pearl (330).....801 Ocean Ave.
Paterson
Joseph R. Lambert (443).....20-22 Church St.
Perth Amboy
Morris Goldfarb (109).....265 Madison Ave.
Plainfield
William G. McDowell (446).....152 North Ave.
Ridgewood
Frederick A. Tetor (364).....1 E. Ridgewood Ave.
Samuel S. Walstrum (106).....Ridgewood
Rutherford
Charles A. Van Winkle (113).....1 & 2 Station Sq.
Theodore Van Winkle (117).....1 Station Sq.

NEW MEXICO

Albuquerque
Joseph P. Deasy (377).....902 W. Tijeras Ave.

NEW YORK

Buffalo
A. P. Allingham (3).....68 Niagara St.
P. V. Bowen (141).....1006 Ellicott Sq.
Walter W. Cohn (81).....155 Pearl St.
Cuthbert E. Reeves (19).....Liberty Bank Bldg.
Mechanicville
Franz H. Moak (40).....37 N. Main St.
Metropolitan New York

Bronx

Herman A. Acker (279).....318 E. Kingsbridge Rd.
Amedeo Giordano (515).....2488 Grand Concourse
Samuel E. McRickard (292).....400 E. Fordham Rd.

Brooklyn

Stephen F. Barrera (133).....191 Joralemon St.
George Baur (170).....2609 Clarendon Rd.
Joseph William Catharine (503).....187 Montague St.
James P. Clark (550).....478 Graham Ave.
James B. Fisher (57).....160 Remsen St.
George H. Gray (17).....310 Ashland Place
Bernard F. Hogan (29).....451 5th Ave.
Arthur J. Horton (183).....1214 Flatbush Ave.
George S. Horton (184).....59 Lafayette Ave.
Frank M. McCurdy (39).....158 Remsen St.
James F. Matthews (76).....186 Joralemon St.
M. C. O'Brien (190).....798 Nostrand Ave.
Charles Partridge (92).....397 Flatbush Ave.
Lewis H. Pounds (128).....32 Court St.
R. W. Walden (89).....94 Clinton St.

Manhattan

Robert H. Armstrong (562).....485 Madison Ave.
Edward J. Crawford (373).....225 Broadway
Dalton Granger De Witt (315).....22 W. 48th St.
Sam W. Florence (206).....2700 Woolworth Bldg.
Howard Geoghegan (512).....51 Chambers St.
A. N. Gitterman (45).....45 E. 49th St.
Bracton Goldstone (68).....10 E. 40th St.
George Grotz, Jr. (573).....346 Broadway
George M. Halk, Jr. (582).....742 Lexington Avenue
Frank D. Hall (159).....393 7th Ave.
John R. Hoyt (290).....17 E. 42nd St.
Robert Huntley (214).....67 Liberty St.
S. E. Kazdin (269).....70 Pine St.

John J. McCormick (445).....51 Chambers St.
Clarence C. Merritt (357).....50 E. 42nd St.
Charles W. Morrison (270).....270 Madison Ave.
James R. Murphy (437).....217 Broadway
Henry Musch, Jr. (157).....330 W. 42nd St., c/o HOLC
Charles A. Nehring (521).....1441 St. Nicholas Ave.
Charles J. Pladwell (542).....522 Fifth Ave.
Irving I. Rosenbaum (179).....384 Broadway
I. Lincoln Seide (526).....220 Broadway
Maurice R. Spear (543).....225 Fifth Ave.
Eldridge C. Thompson (383).....34 Nassau Street
John C. Tredwell (574).....41 Park Row
David Vogel (368).....150 Broadway

Nassau County

Richard T. Childs (273).....222 Front St., Mineola
Fenwick B. Small (31).145 Nassau Ave., Huntington, L. I.

Queens County

Armand Brunswick (327).....90-26 161st St., Jamaica
William F. MacDermott (198)...89-70 162nd St., Jamaica
Axel J. Swenson (272)...41-27 29th St., Long Island City

Westchester County

Robert A. Anderson (259).....34 E. 1st St., Mt. Vernon
Stephen L. Angell (220).....30 E. Parkway, Scarsdale
Vernon N. Bailey (322).....175 Main St., White Plains
Edward C. Heald (222).....20 S. Broadway, Yonkers
Edward H. Hufnagel (250).....10 Fourth Ave., Mt. Vernon
Harry K. Keller (563).....6 Letitia Road, Tuckahoe
Albert W. Lockyer (294).....Depot Plaza, White Plains
Paul Wegener (90).....144 South Broadway, Yonkers
Edward M. West (305).....1 Martine Ave., White Plains

Rochester

Abraham Berghash (219).....130 Clinton Ave., S.

Schenectady

Wm. Garner Bee (415).....278 State St.

Syracuse

James H. Dawley (333).....121 E. Genesee St.
Edward Eagan (271).....204 Starrett-Syracuse Bldg.

NORTH CAROLINA

Asheville

B. H. Sumner (332).....Asheville

Charlotte

S. T. Henderson (20).....P. O. Box 1128

OHIO

Akron

Charles S. Jenkins (564).....659 Schiller Ave.
John C. Kyle (102).....520 S. Firestone Blvd.
A. R. Ritzman (544).....1099 S. Main St.
Eugene K. Sheffield (383).....651 Central Tower Bldg.
Fred E. Smith (298).....608 Broad Blvd., Cuyahoga Falls
W. F. Voges (105).....1109 S. Main St.

Alliance

L. D. Scranton (100).....341 E. Main St.

Canton

Mark Hambleton (146).....417 Mellett Bldg.
A. Ray Walters (439).....524 Renkert Bldg.

Cincinnati

Henry B. Bunker (545).....S. E. Cor. 4th & Vine Sts.
Howard R. Burgess (176).....104 Neave Bldg.
Fred Droege, Jr. (154).....410 First National Bank Bldg.
J. George Ege (335).....3040 Urwiler Ave.
James W. Farrell (149).....S. W. Cor. 5th & Main
John H. Frey (156).....7 Navara Apts., Sta. D
James J. Grogan (180).....S. W. Cor. 5th & Main Sts.
Albert J. Mayer (204).....1515 1st Natl. Bk. Bldg.
P. Lincoln Mitchell (181).....S. W. Cor. 5th & Main Sts.
C. Stott Noble (202).....3428 Stettinius
Michael J. O'Bryne (209).....1825 Kinney Ave.
Russel Price (152).....S. W. Cor. 5th & Main Sts.
Walter S. Schmidt (111).....S. W. Cor. 5th & Main Sts.
Lewis R. Smith (139).....409 American Bldg.
John B. Spilker (155).....410 First National Bank Bldg.
L. F. Steele (310).....209 W. 7th St.

Cleveland

Talmage D. Auble (262).....15509 Madison Ave.
Robert F. Berwald (300).....1220 Williamson Bldg.
Ben B. Beyer (34).....1425 Williamson Bldg.
James G. Bingham (328).....1227 Williamson Bldg.
Raymond T. Cragin (282).....825 Natl. City Bk. Bldg.
W. J. Crawford, Jr. (323).....720 Cuyahoga Bldg.
Victor J. Free (431).....P. O. Box 5876
Walter R. Granger (285).....310 Hippodrome Bldg.
Joseph J. Haas (164).....200 Marshall Bldg.
Joseph B. Hall (2).....5700 Truscon Ave.
Joseph Laronge (103).....600 Union Trust Bldg.
Edwin H. McIntosh (283).....325 Society for Savings Bldg.
Warren L. Morris (251).....420 Natl. City Bk. Bldg.
E. L. Ostendorf (14).....610 Natl. City Bank Bldg.
Carl A. Palmer (286).....850 Euclid Ave.
Max J. Rudolph (281).....1105 Chester Ave.
Carlton Schultz (37).....1223 Schofield Bldg.
Alexander S. Taylor (142).....1930 Union Tr. Bldg.
V. C. Taylor, II (153).....1930 Union Trust Bldg.
Wm. J. Van Aken (284).....1715 Euclid Ave.

Columbus

Preston Cooke (551).....8 East Broad St.
Charles F. Johnson (412).....8 E. Long St.

Dayton

Rufus Lisle (438).....Winters Bank Bldg.

Geneva

J. Earl Miller (267).....Miller Bldg.

Massillon

Charles N. Hostetter (329).....716 Lincoln Way, E.

Springfield

H. S. Kissell (5).....927 1st Natl. Bk. Bldg.

Toledo

Claude A. Campbell (211).....707 Ohio Bank Bldg.
Edmund T. Collins (522).....708 Jefferson Ave.
Geo. P. Crosby (252).....413 Madison Ave.
Howard Etchen (136).....725 Adams St.
Donald F. Hiett (396).....622 Jefferson Ave.
John R. Schackne (529).....507 Produce Exchange Bldg.

Tulsa

OKLAHOMA

J. M. Allen (546).....708 Beacon Bldg.
Clyde A. King (432).....310 Beacon Bldg.

Portland

OREGON

Normal B. Plummer (447).....7064 N. Haight Ave.

Bethlehem

PENNSYLVANIA

Wm. C. Bader (163).....214 Odd Fellows Bldg.

Erie

Carl G. Wright (361).....204 Marine Bank Bldg.

Harrisburg

Evan J. Miller (148).....213 Locust St.

Lancaster

Harry W. Butts (114).....24 E. Orange St.

Lansdowne

W. Raymond Evans (118).....19 N. Lansdowne Ave.

Lewistown

E. Dale Fisher (520).....136 Valley St.

Philadelphia

Philip N. Arnold (174).....123 S. Broad St.
Boyd T. Barnard (237).....Lincoln Liberty Bldg.
Frederick A. Bond (380).....5433 Baltimore Ave.
E. L. Carlson (62).....The Parkway at Fairmount Ave.
C. Harris Colehower (145).....5942 Chestnut St.
Frank P. Felton, Jr. (268).....914 Lincoln Liberty Bldg.
Lionel Friedmann (565).....N.E. Cor. 15th & Locust Sts.
Samuel T. Hall (257).....1500 Locust St.
Roy A. Heymann (362).....213 S. Broad St.
C. Harry Johnson (238).....Packard Bldg.
S. Craig Kane, Jr. (253).....511 Land Title Bldg.
Philip W. Kniskern (1).....1614 Walnut St.
J. Howard McLaughlin (372).....5512 Florence Ave.
Frank H. Massey (549).....S. E. Cor. 13th & Green Sts.
Maurice R. Massey (276).....S. E. Cor. 13th & Green Sts.
William I. Mirkil (226).....1500 Walnut St.
Robert J. Nash (254).....1214 Locust St.
Glyndon Priestman (420).....18 W. Chelten St.
Richard J. Seltzer (255).....15th & Locust Sts.
J. Willison Smith (239).....100 S. Broad St.
Martin Stotz (55).....514 Land Title Bldg.
Ambrose J. Winder (207).....1420 Walnut St.

Pittsburgh

J. W. Cree, Jr. (13).....211 Fourth Ave.
E. Herbert Gilg (552).....6605 Ridgeville Street
Albert A. Murrer (584).....614 Plaza Bldg.

Scranton

C. G. Chappell (376).....Bliss Davis Bldg.

Wilkes Barre

C. A. Leighton (135).....Deposit & Savings Bk. Bldg.
Edward L. Lewith (227).....428 Miners Bk. Bldg.

Providence

RHODE ISLAND

Hal Forrester Coombs (172).....211 Waterman St.
James Devine (130).....801 New Industrial Tr. Bldg.
Richard A. Hurley (513).....728 Hospital Trust Bldg.

TENNESSEE

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Percy Galbreath (421).....Columbian Mutual Tower
George W. Person (320).....503 Manhattan Bk. Bldg.
W. H. Prince (374).....Parkview Hotel Apts.

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J. W. Denis (140).....535 Church St.
J. W. Graham (83).....930 Kirkwood

TEXAS

Amarillo
Robert Ricks (566).....Bivins Bldg.

Beaumont
J. S. Edwards (444).....San Jacinto Bldg.

Dallas
Ballard Burgher (398).....617 Republic Natl. Bk. Bldg.
Henry S. Miller (277).....405 Southland Life Bldg.
Lawrence Miller (386).....2729 South Boulevard
John W. Pat Murphy (384).....1420 Commerce St.

Fort Worth
Meredith R. Carb (354).....403 First Natl. Bk. Bldg.

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W. G. Burchfield (274).....803 2nd Natl. Bk. Bldg.
L. A. Casey (353).....Esperson Bldg.

San Antonio
Paul W. Adams (355).....Builders Exchange Bldg.
A. H. Cadwallader, Jr. (352).....Moore Bldg.
Claris M. Elmore (356).....1031 Navarro St.
R. W. Patton (317).....704 Travis Bldg.

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Salt Lake City
Werner Kiepe (567).....139 S. Second St., E.

VIRGINIA

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J. Arthur Younger (311).....Belle Haven

Newport News
Emanuel E. Falk (548).....24th & West Ave.

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John W. Bates (240).....723 E. Main St.
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John Sloan (241).....18 N. 8th St.
J. Guthrie Smith (144).....329 Clovelly Rd.
Morton G. Thalhimer (221).....1013 E. Main St.

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Arthur E. Burr (576).....623 Second Ave.
Ralph H. Davis (577).....400 Skinner Bldg.
Leonard Downie (296).....Seattle
Wm. A. Eastman (307).....414 University St.
R. C. Erskine (578).....2201 Northern Life Tower
Walter G. McLean (346).....1108 Third Ave.
J. C. McQuigg (344).....1786 Belmont Ave.
Vincent D. Miller (579).....337 Henry Bldg.
Ben J. Smith (343).....5252 16th Ave., N. E.
J. H. Sparkman (349).....1108 3rd Ave.
Cecil S. Van Voris (369).....(FHA) 1817 Exchange Bldg.
David T. Young (580).....511 Marion Bldg.

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.....Box 1019, Charleston Natl. Bk. Bldg.

Clarksburg
Lyle B. Hornor (375).....Goff Bldg.

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H. E. Pilcher (371).....926 6th Ave.

WISCONSIN

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Henry H. Bush (61).....311 State St.

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K. Lee Hyder (185).....525 E. Michigan St.
Fritz W. Beck (581).....1708 North 72nd St., Wauwatosa

ONTARIO, CANADA

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Toronto
Cyril R. De Mara (12).....372 Bay St.
Frank McLaughlin (7).....84 King St., W.

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George Fesperman (5).....208 *Parker St.*

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Peter Hoek (19).....750 *Leonard St., N. W.*

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William Bush (3).....38 *Diana Ave.*

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R. Mason Kirkland (15).....125 *Broad St.*
James Rosensohn (22).....125 *Broad St.*

Keyport
Samuel De Bow Walker (10).....101 *Atlantic Ave.*

NEW YORK

Mount Vernon
Henry F. Linsmann (17).....126 *Burkewood Rd.*

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Alfred R. Marcks (25).....9 *DeKalb Ave.*

Bronxville
Raymond S. DeMott (26).....*Pondfield Rd.*

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Fred B. Wetzel (12).....25 *W. Third St.*

RHODE ISLAND

Pawtucket
Leo V. Boyle (4).....44 *Broad St.*

TEXAS

Austin
Wilhelmine B. Sheffield (20).....207 *W. 7th St.*

Dallas
Alfred J. Beilharz (13).....6401 *Hillcrest Ave.*

WEST VIRGINIA

Wheeling
Harry C. Miller (7).....313 *Wheeling Steel Bldg.*

Index to Volume V
1937

A

Accounting for buildings in farm property valuation. Hobbs. July, p. 262-269.
Actuarial Theory
Fischer, R. M. Depreciation in industrial property. April, p. 143.
Addendum—The appraisal of cemeteries. July, p. 251.
Agg, T. R., and Marston, Anson. Engineering valuation (book review). Jan., p. 77.
American Institute of Real Estate Appraisers. Committees. Jan., p. 93-94; April, p. 196-197; July, p. 297-298; Oct., p. 388-389. Digest of the minutes. Jan., p. 79-86. Governing Council. Jan., p. 2-3, 79-86, 92; April, p. 195; July, p. 296; Oct., p. 387. Local chapters. Jan., p. 92; April, p. 195; July, p. 296; Oct., p. 307. New members. Jan., p. 87-91; April, p. 192-194; July, p. 292-295. Officers. Jan., p. 2-3, 92; April, p. 195; July, p. 296; Oct., p. 387. Officers of local chapters. Jan., p. 92; April, p. 195; July, p. 296; Oct., p. 307. Roster of members. Jan., p. 95-99; April, p. 198-202; July, p. 299-303; Oct., p. 390-394. Rules of professional ethics. April, p. 189-191.
Amortization
Reeves, C. E. Amortization or depreciation reserves. April, p. 169-174.
Amortization or depreciation reserves. Reeves. April, p. 169-174.
Apartment Buildings
Hyder, K. L. Planning the appraisal. Jan., p. 40-41.
The appraisal docket. Wilson, July, p. 286-288; Oct., p. 382-384.
The appraisal of cemeteries. Lederer. April, p. 107-123; July, p. 225-239.
Appraisal Procedure
Hyder, K. L. Planning the appraisal. Jan., p. 30-44. Sexauer, G. C. On appraising real estate by the capitalization method. April, p. 181-184. Sutherland, J. F. On the appraisal report. April, p. 180-181.
Appraisal procedure of Federal agencies. Wagner. July, p. 240-245.
Appraisal Report
Downie, Leonard. The appraiser's responsibility under H.O.L.C. property appraisal report form. Jan., p. 60-66. Sutherland, J. F. On the appraisal report. April, p. 181-191.
Appraisal Standards. Ostendorf. Oct., p. 325-328.
The appraiser and public relations. Cheesman. July, p. 273-277.
Appraisers
Cheesman, Mark. The appraiser and public relations. July, p. 273-277. Downie, Leonard. The appraiser's responsibility under H.O.L.C. property appraisal report form. Jan., p. 60-66. Hyder, K. L. Planning the appraisal. Jan., p. 30-44. Reidy, M. F. The changing scene and appraisal progress. Jan., p. 23-29. Schmutz, G. L. Court testimony. April, p. 130-142. Wagner, P. E. On licensing appraisers. Jan., p. 73-74.
The appraiser's responsibility under H.O.L.C. property appraisal report form. Downie. Jan., p. 60-66.
Appraising real estate by the capitalization method. Sexauer. April, p. 181-184.
Appraising the sale.
With the editors. April, p. 106.
Appraising the small home. Neiswanger. April, p. 124-129.
Appraising typical business properties for loan purposes. Chapman. Jan., p. 45-53.
Ashton, M. B. Review of Bonbright The valuation of property. April, p. 185-187. Review of Kurtz The science of valuation and depreciation. Oct., p. 385.
Association of Appraisal Executives
Basic standards of appraisal practice and procedure (book review). April, p. 187.

B

Babcock, F. M. A new approach to the solution of the appraisal problem. Jan., p. 54-59.
Banks
Reidy, M. F. The changing scene and appraisal progress. Jan., p. 27-29.
Barnard, B. T. Report of the annual meeting of the permanent committee of the international federation of surveyors. Oct., p. 365-368.
Bibliography
What's in the December magazines. Jan., p. 78. New articles. July, p. 291; Oct., p. 386.
Bingham, R. F. The expert witness from the lawyer's point of view. Oct., p. 343-347.
Black Sheep
Oct., p. 309.
Bonbright, J. C. The valuation of property (book review). April, p. 185-187.
Bond, F. A. Review of Orgel Valuation under the law of eminent domain. July, p. 290.
Book Reviews
Association of Appraisal Executives. Basic standards of appraisal practice and procedure. April, p. 187. Bonbright, J. C. The valuation of property. April, p. 185. Cleminshaw, J. M. Farm building appraisers manual. April, p. 188. Dow Service, Inc. Cubic foot cost standard calculator. July, p. 289. Kurtz, E. B. The science of valuation and depreciation. Oct., p. 385. McMichael, S. L. McMichael's appraising manual. July, p. 290-291. Marston, Anson and Agg, T. R. Engineering valuation. Jan., p. 77. Orgel, Lewis, Valuation under the law of eminent domain. July, p. 290. Silverherz, J. D. The assessment of real property in the United States. Jan., p. 77.
Buildings
Hobbs, W. E. Accounting for buildings in farm property valuation. July, p. 262-269.
Business Cycle
Fischer, R. M. Economic background of the capitalization process. Oct., p. 337.
Business Property
Chapman, F. L. Appraising typical business properties for loan purposes. Jan., p. 45-53.

C

California
Carll, C. D. On easement costs and damages under California practice. July, p. 281-285.
Can real estate have more than one value? Dunn. April, p. 175-179.
Capital
Fischer, R. M. Economic background of the capitalization process. Oct., p. 329-342.
Capitalization
Downie, Leonard. The appraiser's responsibility under H.O.L.C. property appraisal report form. Jan., p. 60-66. duBois, A. J. Techniques in value estimation. April, 150-153. Fischer, R. M. Economic background of the capitalization process. Oct., p. 329-342. Morse, T. D. The gyroscope of rural appraisals. July, p. 222-224. Neiswanger, David. Appraising the small home. April, p. 127-129. Ross, T. H. Rate of capitalization. July, p. 211-218. Sexauer, G. C. On appraising real estate by the capitalization method. April, p. 181-184.
Capitalization Rate
Kazdin, S. E. The valuation of guaranteed mortgages. Jan., p. 20-22. Morse, T. D. The data program for the appraisal of dairy farms. Jan., p. 12.
Carll, C. D. On easement costs and damages under California practice. July, p. 281-285.
Cemeteries
Addendum—The appraisal of cemeteries. July, p. 251. Lederer, M. W. The appraisal of cemeteries. April, p. 107-123; July, p. 225-239. Stolp, J. A. On cemetery valuation. Oct., p. 373-376.
The changing scene and appraisal progress. Reidy. Jan., p. 23-29.
Chapman, F. L. Appraising typical business properties for loan purposes. Jan., p. 45-53.
Cheesman, Mark. The appraiser and public relations. July, p. 273-277.
Cleminshaw, J. M. Co. Farm building appraisers manual (book review). April, p. 188.
Cleveland, Ohio
Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324.
Columbia Courses
Simpson, C. L. On the Columbia appraisal courses. Oct., p. 379-381.
Coming "Appraisal Forum." July, p. 208-209.
Comment and discussion. Jan., p. 67-74; April, p. 180-184; July, p. 278-285; Oct., p. 369-381.

Comparative Approach
duBois, A. J. Techniques in value estimating. April, p. 150.
Neiswanger, David. Appraising the small home. April, p. 126.
Condemnations
Thompson, Burton. Some problems confronting appraisers in condemnation cases. July, p. 270-272.
Correction
Fischer, R. M. The use of "standards" in appraisal practice. Jan., p. 22.
Court testimony. Schmutz. April, p. 130-142.
Cutmore, H. S. Review of Silverherz Assessment of real property in the United States. Jan., p. 77.

D

Dairy Farms
Morse, T. D. The data program for the appraisal of dairy farms. Jan., p. 9-16.
Damages
Carll, C. D. On easement costs and damages under California practice. July, p. 281-285. Thompson, Burton. Some problems confronting appraisers in condemnation cases. July, p. 270-272.
Data
Morse, T. D. The data program for the appraisal of dairy farms. Jan., p. 9-16. Neiswanger, David. Appraising the small home. April, p. 124-126.
The data program for the appraisal of dairy farms. Morse. Jan., p. 9-16.
Depreciation
Fischer, R. M. Depreciation in industrial properties. April, p. 143-148. Mack, C. C. On land depreciation. Oct., p. 377-379. Reeves, C. E. Amortization or depreciation reserves. April, p. 169-174. Tredwell, J. C. On depreciation and the "forgotten man." Oct., p. 371-373.
Depreciation in industrial properties. Fischer. April, p. 143-148.
Diminishing Balance Method
Reeves, C. E. Amortization or depreciation reserves. April, p. 169-174.
"Disinterested"—To whom? July, p. 209-210.
Dow Service, Inc.
Cubic foot standard calculator (book review). July, p. 289.
Downie, Leonard. The appraiser's responsibility under H.O.L.C. property appraisal report form. Jan., p. 60-66.
duBois, A. J. Techniques in value estimation. April, p. 149-154.
Dunn, Dominick. Can real estate have more than one value? April, p. 175-179.

E

Easements
Carll, C. D. On easement costs and damages under California practice. July, p. 281-285.
Economic background of the capitalization process. Fischer. Oct., p. 329-342.
Editorials
Jan., p. 8; April, p. 105-106; July, p. 208-210; Oct., p. 308-310.
Ethics
American institute of real estate appraisers. Rules of professional ethics. April, p. 189-191.
Expense
Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324.
Expert Witness
Bingham, R. F. The expert witness from the lawyer's point of view. Oct., p. 343-347. Pollard, W. L. On the expert witness, Jan., p. 67-69. Schmutz, G. L. Court testimony. April, p. 130-142. Wilson, William, ed. The appraisal docket. July, p. 286-287; Oct., p. 384.
The expert witness from the lawyer's point of view. Bingham. Oct., p. 343-347.

F

Fairmont Cemetery Association, Petitioner, vs. Guy T. Helvering, Commissioner of Internal Revenue, Respondent. July, p. 251.
Families
Kedzierski, S. L. Relation of owner-occupied residential property to family income. April, p. 155-168.
Farm Credit Corporation
Wagner, P. E. Appraisal procedure of Federal agencies. July, p. 241-244.
Farms
Hobbs, W. E. Accounting for buildings in farm property valuation. July, p. 262-269. Morse, T. D. The data program for the appraisal of dairy farms. Jan., p. 9-16. Morse, T. D. The gyroscope of rural appraisals. July, p. 219-224.
Federal Home Loan Bank
Wagner, P. E. Appraisal procedure of Federal agencies. July, p. 241.
Federal Housing Administration
Wagner, P. E. Appraisal procedure of Federal agencies. July, p. 244-247.
Feed
Morse, T. D. Ranch appraising. Oct., p. 348-356.
Fees
Wilson, William. ed. The appraisal docket. July, p. 287-288.
Field, R. V. Inwood and Hoskold and their tables. Jan., p. 75-76.
Fischer, R. M. Correction in the use of "Standards" in appraisal practice. Jan., p. 22. Depreciation in industrial properties. April, p. 143-148. Economic background of the capitalization process. Oct., p. 329-342.
Forage
Morse, T. D. Ranch appraising. Oct., p. 348-356.
Forms
Downie, Leonard. The appraiser's responsibility under H.O.L.C. property appraisal report form. Jan., p. 60-66.
Wagner, P. E. Appraisal procedure of Federal agencies. July, p. 240-245.

G

The gyroscope of rural appraisals. Morse. July, p. 219-224.

H

Habit—precedent—tradition. Jan., p. 8.
Hobbs, W. E. Accounting for buildings in farm property valuation. July, p. 262-269.
H.O.L.C.
Downie, Leonard. The appraiser's responsibility under H.O.L.C. property appraisal report form. Jan., p. 60-66.
Wagner, P. E. Appraisal procedure of Federal agencies. July, p. 240-241.
Hoskold Tables
Field, R. V. Inwood and Hoskold and their tables. Jan., p. 75-76.
Hotels
Hyder, K. L. Planning the appraisal. Jan., p. 41-44.
Houses
Neiswanger, David. Appraising the small home. April, p. 124-129.
Hoyt, J. R. On the use of "standards" in appraisal practice. Jan., p. 72-73.
Hyder, K. L. Planning the appraisal. Jan., p. 30-44.

I

Improving your game. April, p. 105.
Income
Kedzierski, S. L. Relation of owner-occupied residential property to family income. April, p. 155-168. Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324. Morse, T. D. The gyroscope of rural appraisals. July, p. 222-224.
Income Approach
duBois, A. J. Techniques in value estimation. April, p. 150-154. Neiswanger, David. Appraising the small home. April, p. 127-129.
Industrial Property
Fischer, R. M. Depreciation in industrial property. April, p. 143-148.
Interest
Fischer, R. M. Economic background of the capitalization process. Oct., p. 329-342.
The International Federation of Surveyors
Barnard, B. T. Report of the annual meeting of the permanent committee of the international federation of surveyors. Oct., p. 365-368.
Investments
Lederer, M. W. The appraisal of cemeteries. April, p. 118-123. Ross, T. H. Rate of capitalization. July, p. 212-218.
Inwood and Hoskold and their tables. Field. Jan., p. 75-76.
Inwood Tables
Field, R. V. Inwood and Hoskold and their tables. Jan., p. 75-76.
It takes more than a saw and a hammer. July, p. 209.
It's time to put on the brakes. April, p. 105.

J

Jones, C. M. Review of Association of Appraisal Executives Basic standards of appraisal practice and procedure. April, p. 187. Review of Cubic foot cost standard calculator. July, p. 289. Review of Marston and Agg Engineering valuation. Jan., p. 77. ed. What to read. Jan., p. 75-78; April, p. 185-188; July, p. 289-291; Oct., p. 385-386.
Jones, F. L. The metes and bounds system of land description. July, p. 252-261.

K

Kazdin, S. E. The valuation of "guaranteed" mortgages. Jan., p. 17-22.

Kedzierski, S. L. Relation of owner-occupied residential property value to family income. April, p. 155-168.
Kurtz, E. B. The science of valuation and depreciation (book review). Oct., p. 385.

L

Land
Wilson, William, ed. The appraisal docket. Oct., p. 383.
On land depreciation. Mack. Oct., p. 377-379.
Land Description
Jones, F. L. The metes and bounds system of land description. July, p. 252-261.
Land Economics
Thorson, I. A. Our real estate tax problem. Oct., p. 357-364.
Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324.
Leases
Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324.
Lederer, M. W. The appraisal of cemeteries. April, p. 107-123; July, p. 225-239.
Loans
Babcock, F. M. A new approach to the solution of the appraisal problem. Jan., p. 56-59. Chapman, F. L. Appraising typical business properties for loan purposes. Jan., p. 45-53.

M

Mack, Curt. On land depreciation. Oct., p. 377-379.
McMichael, S. L. McMichael's appraising manual (book review). July, p. 290-291.
McNaughten, J. C. Review of J. M. Cleminshaw Co. Farm building appraisers manual. April, p. 188.
Market Value
Kedzierski, S. L. Relation of owner-occupied residential property to family income. April, p. 160-167, tables.
Wilson, William. ed. The appraisal docket. Oct., p. 382.
Marston, Anson, and Agg, T. R. Engineering valuation (book review). Jan., p. 77.
The metes and bounds system of land description. Jones. July, p. 252-261.
Mills Rule
Fischer, R. M. Correction in the use of "standards" in appraisal practice. Jan., p. 22. Hoyt, J. R. On the use of "standards" in appraisal practice. Jan., p. 72-73.
Money
Fischer, R. M. Economic background of the capitalization process. Oct., p. 329-342.
Morse, T. D. The data program for the appraisal of dairy farms. Jan., p. 9-16. The gyroscope of rural appraisals. July, p. 219-224. Ranch appraising. Oct., p. 348-356.
Mortgages
Babcock, F. M. A new approach to the solution of the appraisal problem. Jan., p. 56-59. Kazdin, S. E. The valuation of "guaranteed" mortgages. Jan., p. 17-22.

N

Neiswanger, David. Appraising the small home. April, p. 124-129.
A new approach to the solution of the appraisal problem Babcock. Jan., p. 54-59.
New articles. July, p. 291; Oct., p. 386.

O

On appraising real estate by the capitalization method Sexauer. April, p. 181-184.
On cemetery valuation. Stolp. Oct., p. 373-376.
On depreciation and the "forgotten man." Tredwell. Oct., p. 371-373.
On easement costs and damages under California practice. Carll. July, p. 281-285.
On real estate having more than one value. Thompson. July, p. 278-280.
On the appraisal report. Sutherland. April, p. 180-181.
On the Columbia appraisal courses. Simpson. Oct., p. 379 381.
On value. Smith. Oct., p. 369-371.
Order in the court. Oct., p. 310.
Orgel, Lewis. Valuation under the law of eminent domain (book review). July, p. 290.
Ostendorf, E. I. Appraisal standards. Oct., p. 325-328. The president's address. Jan., p. 4-5. The president's message April, p. 102; July, p. 205; Oct., p. 305.
Our real estate tax problem. Thorsen. Oct., p. 357-364.

P

Planning the appraisal. Hyder. Jan., p. 30-44.
Plats
Morse, T. D. Ranch appraising. Oct., p. 348-356.
The plight of Delphi. Wilson. Oct., p. 383.
Pollard, W. L. On the expert witness. Jan., p. 67-69.
The President's address. Ostendorf. Jan., p. 4-5.
The President's message. Ostendorf. April, p. 102; July, p. 206; Oct., p. 305.
Price
Dunn, Dominick. Can real estate have more than one value? April, p. 175-179. Fischer, R. M. Economic background of the capitalization process. Oct., p. 329-342. Morse, T. D. The gyroscope of rural appraisals. July, p. 219-224. Reidy, M. F. The changing scene and appraisal progress. Jan., p. 23-29.
Professionalism
Ostendorf, E. L. Appraisal standards. Oct., p. 325, 328.
Property Rights
Jones, F. L. The metes and bounds system of land description. July, p. 252-261.
Public Relations
Cheesman, Mark. The appraiser and public relations. July, p. 273-277.

R

The racketeer in appraising. Oct., p. 308.
Ranch appraising. Morse. Oct., p. 348-356.
Rate of capitalization. Ross. July, p. 211-218.
Real estate reports and the appraisal docket. July, p. 208.
Reappraisals
Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324.
Reconstruction Finance Corporation
Wagner, P. E. The appraisal procedure of Federal agencies. July, p. 214-245.
Reeves, C. E. Amortization or depreciation reserves. April, p. 169-174. On net rentals of "taxpayer" properties. Jan., p. 69-72.
Reidy, M. F. The changing scene and appraisal progress. Jan., p. 23-29.
The relation of owner-occupied residential property value to family income. Kedzierski. April, p. 155-168.
Rent
Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324. Reeves, C. E. On net rentals of "taxpayer" properties. Jan., p. 69-72.
Report of the annual meeting of the permanent committee of the international federal of surveyors. Barnard. Oct., p. 365-368.
Reports
Schmutz, G. L. Writing reports. July, p. 248-251.
Reproduction Costs
duBois, A. J. Techniques in value estimation. April, p. 149-150. Fischer, R. M. Depreciation in industrial property. April, p. 146-147. Neiswanger, David. Appraising the small home. April, p. 126-127.
Residential Property
Kedzierski, S. L. Relation of owner-occupied residential property value to family income. April, p. 155-168. Neiswanger, David. Appraising the small home. April, p. 124-129.
Ross, T. H.
Rate of capitalization. July, p. 211-218.
Rules of professional ethics. April, p. 189-191.

S

Sample Appraisals
Lederer, M. W. The appraisal of cemeteries. April, p. 117-123; July, p. 225-239.
Schmutz, G. L. Court testimony. April, p. 130-142. Writing reports. July, p. 248-251.
Selling
Lederer, M. W. The appraisal of cemeteries. April, p. 114-117.
Sexauer, G. C. On appraising real estate by the capitalization method. April, p. 181-184.
Sholes, L. C. Review of McMichael McMichael's appraising manual. July, p. 290-291.
Silverherz, J. D.
Assessment of real property in the United States (book review). Jan., p. 77.
Simpson, C. L. On the Columbia appraisal courses. Oct., p. 379-381.
Sinking Funds
Reeves, C. E. Amortization or depreciation reserves. April, p. 169-174.
Smith, L. C. On value. Oct., p. 369-371.
Soils
Morse, T. D. Ranch appraising. Oct., p. 348-356.
Some examples of judicial preferences in valuation methods. Wilson. Oct., p. 383.
Some problems confronting appraisers in condemnation cases.

Thompson. July, p. 270-272.
Standards
Hoyt, J. R. On the use of "standards" in appraisal practice. Jan., p. 72-73. Ostendorf, E. L. Appraisal standards. Oct., p. 325-328.
Stolp, J. A. On cemetery valuation. Oct., p. 373-376.
Straight Line Method
Reeves, C. E. Amortization or depreciation reserves. April, p. 169-174.
Surveyors
Barnard, B. T. Report of the annual meeting of the permanent committee of the International federation of surveyors. Oct., p. 365-368.
Sutherland, J. F. On the appraisal report. April, p. 180-191.

T

Tables
Field, R. V. Inwood and Hoskold and their tables. Jan., p. 75-76.
Taxation
Thorson, I. A. Our real estate tax problem. Oct., p. 357-364.
Taxes
Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324.
Taxpayers
Reeves, C. E. On net rentals of "taxpayer" properties. Jan., p. 69-72.
Techniques in value estimation. duBois. April, p. 149-154.
Testimony
Pollard, W. L. On the expert witness. Jan., p. 67-69. Schmutz, G. L. Court testimony. April, p. 130-142.
Thompson, Burton. Some problems confronting appraisers in condemnation cases. July, p. 270-272.
Thompson, R. E.
On real estate having more than one value. July, p. 278-280.
Thorson, I. A. Our real estate tax problem. Oct., p. 357-364.
Traffic
Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324.
Tredwell, John. On depreciation and the "forgotten man." Oct., p. 371-372.
Two "T's". Oct., p. 309.

U

U. S. Board of Tax Appeals
Fairmont Cemetery Association, Petitioner, vs. Guy T. Helvering, Commissioner of Internal Revenue, Respondent. July, p. 251.
Use
Laronge, Joseph. Valuation of the fee under a reappraisal lease. Oct., p. 311-324.

V

The valuation of "guaranteed" mortgages. Kazdin. Jan., p. 17-22.
Valuation of the fee under a reappraisal lease. Laronge. Oct., p. 311-324.
Value
Bingham, R. F. The expert witness from the lawyer's point of view. Oct., p. 343-347. duBois, A. J. Techniques in value estimation. April, p. 149-154. Dunn, Dominick. Can real estate have more than one value? April, p. 175-179. Morse, T. D. The gyroscope of rural appraisals. July, p. 221-222. Reidy, M. F. The changing scene and appraisal progress. Jan., p. 23-29. Smith, L. C. On value. Oct., p. 369-371. Thompson, R. E. On real estate having more than one value. July, p. 278-280. Thorson, I. A. Our real estate tax problem. Oct. p. 357-364. Wilson, William, ed. The appraisal docket. July, p. 287-288.
Vegetation
Morse, T. D. Ranch appraising. Oct., p. 348-356.

W

Wagner, P. E. Appraisal procedure of Federal agencies. July, p. 240-245. On licensing appraisers. Jan., p. 73-74.
Washington Highlands Cemetery Association
Lederer, M. W. The appraisal of cemeteries. July, p. 225-236.
What to read. Jones. Jan., p. 75-78; April, p. 185-188; July, p. 289-291; Oct., p. 385-386.
What's in the December magazines. Jan., p. 78.
Wilson, William, ed. The appraisal docket. July, p. 286-288; Oct., p. 382-384. Judicial preferences in valuation methods. Oct., p. 382-383.
With the editors. April, p. 105-106; July, p. 207-208; Oct., p. 308-310.
Writing reports. Schmutz. July, p. 248-251.

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